Building Strong Communities

A Guide to
Service Delivery Review
for Municipal Managers

August 2004

Ontario

The Ministry of Municipal Affairs and Housing and its partners on this project offer **A Guide to Service Delivery Review for Municipal Managers** as a helpful resource to municipalities. However, the guide summarizes complex matters and reflects legislation and practices that are subject to change. Important details may have been omitted in the interest of brevity. Municipalities are responsible for compliance with provincial policy decisions or statutes. The guide should not be used to substitute for legal or professional advice, and we recommend that municipalities seek such advice in planning any actual service delivery changes. The user is responsible for how the guide is used or applied.

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Ontario

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Association of
Municipal Managers,
Clerks and Treasurers
of Ontario

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MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO

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Municipal
Administrators'
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Executive Summary

A Guide to Service Delivery Review for Municipal Managers has been created to help senior managers of municipal departments in Ontario in their ongoing effort to improve (a) service delivery by providing better customer service and operating more efficiently, and (b) expenditure management by setting goals and priorities, managing demand and evaluating performance.

The guide has been developed through a partnership of the Ministry of Municipal Affairs and Housing and:

- the Association of Municipal Managers, Clerks and Treasurers of Ontario;
- the Municipal Finance Officers' Association of Ontario; and
- the Ontario Municipal Administrators' Association.

What Is Service Delivery Review?

By service delivery review we mean an evaluation process in which a specific municipal service is systematically reviewed to determine the most appropriate way to provide it. (Other specialized terms we use in this guide are defined in *Appendix 1*: Glossary of Terms.)

How Can The Guide Be Used?

The guide offers a fresh approach to managing municipal spending. Traditionally, managing spending meant across-the-board cuts to all services, "cherry picking" which services to cut, deferring capital projects, increasing user fees or dipping into reserves. Moreover, a reduction in the budget for a service tended to result in a comparable reduction in that service.

The service delivery review process takes a different tack. It focuses on setting priorities – *making choices* – and, where possible, reducing the cost of delivery while maintaining or improving services and service levels.

Achieving this result requires a more rigorous process that involves asking the following ten questions:

1. Do we really need to continue to be in this business/service?
2. What do citizens expect of the service and what outcomes does council want for the service?
3. How does current performance compare to expected performance?
4. Do the activities logically lead to the expected outcomes?
5. How is demand for the service being managed?
6. What are the full costs and benefits of the service?
7. How can benefits and outputs of the service be increased?
8. How can the number and cost of inputs be decreased?
9. What are the alternative ways of delivering the service?
10. How can a service change best be implemented and communicated?

In answering these questions, you should engage citizens and other stakeholders

We welcome your views on how well we've met our goals in developing this guide.

(such as municipal staff and unions) to ensure that the choices you make are informed by their goals and values. Your choices should also be consistent with and informed by the municipality's official plan and its business or strategic plan.

Why Did We Create This Guide?

Municipalities have been asking for a tool that considers the best practices in service delivery review. To develop this guide, we drew on processes tested by several jurisdictions around the world, as well as on the experiences of Ontario's innovative municipal sector.

The guide supports the province's commitment to fulfilling its shared responsibility with municipalities to deliver better public services in an affordable way.

What Is The Approach Of The Guide?

The guide outlines a six-stage process for reviewing and, where appropriate, changing service delivery. At each stage, we have identified key factors to take into consideration.

The range of service delivery methods include several options in addition to direct delivery by municipalities, including contracting out and the use of public- and private-sector partners. We also discuss "contracting in" services that are currently delivered by external groups.

To determine which parts of this six-stage process are appropriate for reviewing a particular service or program, *you should consider the six stages against the scale, scope and strategic importance of the service or program you are reviewing.* Larger scale services or programs may need a more elaborate review, while smaller undertakings can be reviewed using a smaller number of questions. As well, you can use specific tools, techniques and considerations to make immediate improvements in service delivery.

What Are The Goals Of The Guide?

The guide's goals include creating a tool for reviewing and implementing changes in municipal service delivery that is:

- Empowering - it identifies more than 75 tools and techniques for service improvement and expenditure management and references over 100 municipal examples.
- Relevant – it is guided by wide consultation with Canadian municipalities and knowledge of practices elsewhere.
- Well-grounded – it is sound, logical and easy to understand.
- Comprehensive – it puts in one place the key questions and implementation considerations from the beginning to the end of a review and addresses a broad range of issues and options.
- Flexible – it can serve as a follow-up to a wider performance management initiative or be used as a stand-alone initiative for a wide range of services. The tools in the guide can also be separated from the overall review process and used to address specific areas of need in a service or program.

How To Use This Guide

A Guide to Service Delivery Review for Municipal Managers was designed to help municipalities in their ongoing efforts to improve the efficiency and effectiveness of the services they deliver and find better ways of managing expenditures.

Service delivery review refers to an evaluation process in which a specific municipal service is systematically reviewed to determine the most appropriate way to provide it.

This chapter provides an overview of the process, organized into four sections:

1.1 Why Service Delivery Review?

1.1 Why service delivery review?
1.2 What is the purpose of this guide?
1.3 How is this guide organized?
1.4 The Ontario municipal context for Service Delivery Review

Although service delivery review is not a new concept, it has taken on added significance in the current fiscal environment. Ontario municipalities are increasingly asked to respond to multiple (and often competing) demands for a wide range of services and programs while facing budgetary pressure and fiscal constraint.

Local board and municipal staff may initiate a review of local services and programs to:

- improve service;
- meet new or increased demand from customers for services;
- maintain existing service levels in the face of competing priorities or decreasing revenues;
- reduce costs;
- improve revenues.

Service delivery review represents a more methodical approach to a budget crunch than traditional or reactive tactics, such as instituting across-the-board cuts to all services, "cherry picking" which services to cut, deferring capital projects, increasing user fees or dipping into reserves. These budget-cutting exercises generally lead to a reduction in service levels.

The service delivery review process takes a different tack. Instead, we focus on setting priorities – making choices – and, where possible, reducing the cost of delivery while maintaining or improving services and service levels. This process means asking the following ten questions:

1. Do we really need to continue to be in the business/service?
2. What do citizens expect of the service and what outcomes does council want for the service?

We use a number of specialized terms in this guide. You'll find the more common ones defined in the glossary at *Appendix 1*.

3. How does current performance compare to expected performance?
4. Do the activities logically lead to the expected outcomes?
5. How is demand for the service being managed?
6. What are the full costs and benefits of the service?
7. How can benefits and outputs of the service be increased?
8. How can the number and cost of inputs be decreased?
9. What are the alternative ways of delivering the service?
10. How can a service change best be managed, implemented and communicated?

To answer these questions, you need to engage citizens and other stakeholders (such as municipal staff and unions) to ensure that your choices are informed by their goals and values. Feedback from these groups represents an indispensable resource for the choices you are called on to make.

We recognize the importance of candidly sharing the learnings of the municipalities that contributed their experiences to the guide. Therefore, we have made sure that specific municipalities are neither identified by name, nor identifiable by inference, except where a municipality has been named in other published material; for example, in the Ontario Centre for Municipal Best Practices website at www.ocmbp.ca.

1.2 What Is The Purpose Of The Guide?

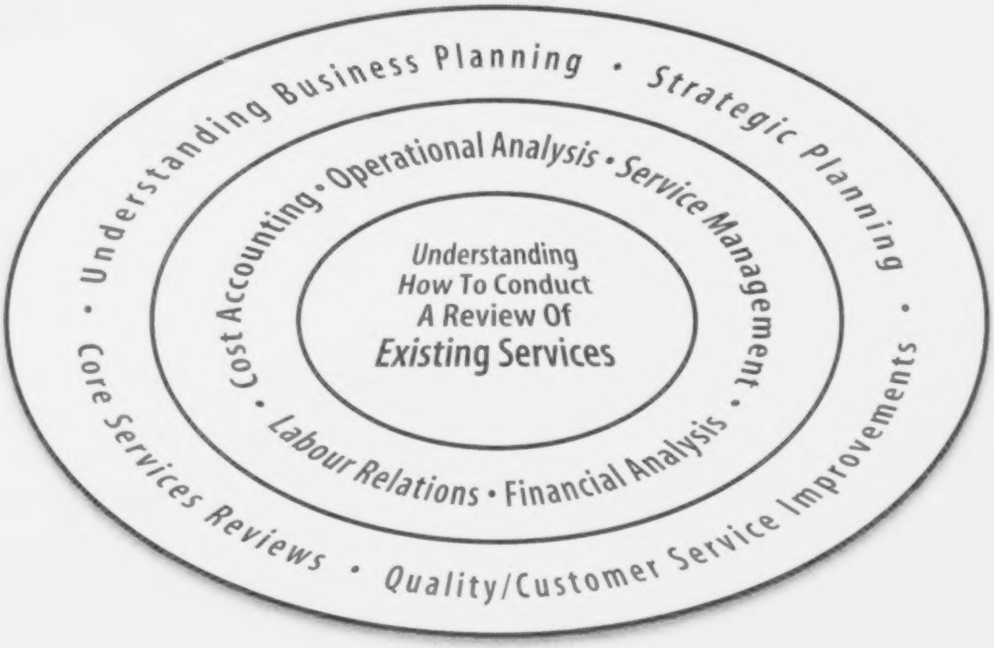
1.1 Why service delivery review?
1.2 What is the purpose of this guide?
1.3 How is this guide organized?
1.4 The Ontario municipal context for Service Delivery Review

The guide supports the province's commitment to fulfilling its shared responsibility with municipalities to deliver better public services in an affordable way. It is offered as a practical tool to help municipalities maintain or improve service standards while lowering costs, or make service delivery costs sustainable over the long term.

Municipalities have been asking us for a tool that describes best practices in service delivery review that have been tested by jurisdictions around the world, as well as the experiences of Ontario's innovative municipal sector.

The guide outlines a six-stage process for reviewing and, where appropriate, changing service delivery. At each stage, we have identified key factors to take into consideration. The range of service delivery methods includes several alternatives to direct delivery by municipalities, including contracting out and the use of public and private sector partners. We also discuss "contracting in" services currently delivered by external groups.

The key audience for the guide consists of senior managers of municipal departments (such as the directors of parks & recreation, roads, libraries or human resources) and those to whom they report. The guide provides a detailed, comprehensive tool to improve the efficiency and effectiveness of the services and programs they deliver. A separate, shorter product that provides a high level summary of the process has been prepared for councillors and senior staff. Although the scope of the review process we describe may be accommodated more easily by medium to large municipalities, small municipalities will also find the components, tools and approaches useful.


Understanding How To Conduct A Review Of Existing Services
Cost Accounting • Operational Analysis • Service Management • Financial Analysis • Labour Relations •
Understanding Business Planning • Strategic Planning • Quality/Customer Service Improvements • Core Services Reviews •

Meaningful service delivery review incorporates skills, knowledge and experience from many professional disciplines, including service management, labour relations, financial analysis, operational analysis and cost accounting. In the diagram above, these disciplines are in the first circle outside the core. The outer circle represents the broader context for a review of a specific service. For information on additional training and advice on undertaking a review, using these skill sets and areas of expertise, and on these broader contextual matters, see *Appendix 10*: Additional Resources.

Your review will also be informed by a thorough understanding of the service area under review. Clearly, technical considerations beyond the scope of this guide will inform each municipality when deciding where to place a fire station or how to schedule snow clearing from municipal roadways. (For one-stop shopping of information about recent improvements in the delivery of municipal services in Ontario municipalities, see the Ontario Centre for Municipal Best Practices at www.ocmbp.ca.) As well, outside of the scope of this guide are a host of management considerations that can impact efficiency and effectiveness of service delivery; for example, organizational structure, staff roles and responsibilities, incentive systems, how information and knowledge is shared, how resources are allocated and how decisions about staffing, strategies and operations are made and implemented.[1]

1.3 How Is This Guide Organized?

1.1 Why service delivery review?
1.2 What is the purpose of this guide?
1.3 How is this guide organized?
1.4 The Ontario municipal context for Service Delivery Review

This guide is designed to lead council and staff through the key stages of conducting a review. These stages reflect the logical decision-making flow the municipality might go through in undertaking such an exercise. The aim here is to provide a structure that:

- creates a sound, logical and easily understood process for making decisions on how best to deliver services and programs – a process that can either be incorporated into a wider performance management initiative (such as a strategic planning or quality service improvement initiative), or be used as a stand-alone initiative;
- will be useful for municipalities of all types and sizes in all parts of Ontario and for a wide range of services;
- covers a broad range of issues and options that need to be considered in the review process;
- includes what you need to know to move from determining which service to review, to selecting a service provider, to implementing a new service arrangement.

Here is a brief overview of the structure of the guide (as depicted in the flow chart) and the suggested review process.

Whether or not council and staff use each step of the process – although we recommend following the steps – we think you'll find the guide quite useful and enabling. It identifies more than 75 tools and techniques for service improvement and expenditure management.

Stage 1: Getting Organized For Service Delivery Review (Chapter 2)

This stage is designed to help you prepare for the review by setting the framework of the review process. Each municipality has different needs, challenges, resources and objectives. The guide offers a flexible framework that can be used in a variety of ways. As noted above, it can be used as a part of a wider corporate exercise or as a stand-alone initiative. This stage gets the process started by asking council to:

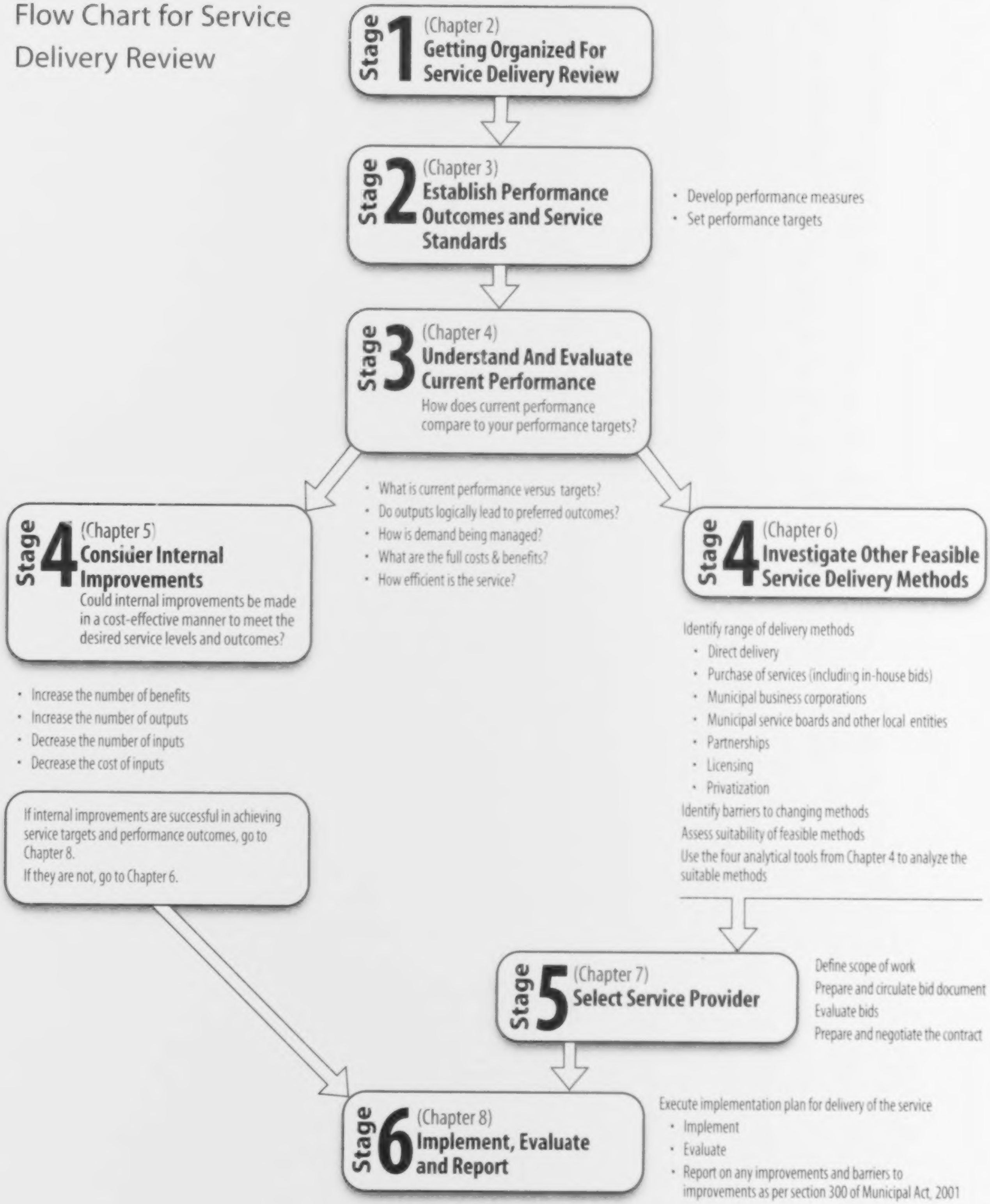
- develop the ground rules, principles and processes governing the review in a way that supports the municipality's strategic goals;
- identify the staffing and financial capacity to undertake the review;
- determine how to select candidate services and programs for review, using common, strategic and community considerations;
- ensure the review process is informed by citizen demands, expectations and concerns.

Stage 2: Establish Performance Outcomes And Service Standards (Chapter 3)

For services or programs that are appropriate candidates for review, council needs to identify the following:

- its purpose (who is its target group? why is it needed?);
- the outcomes council expects (what effect should it have on citizens?);
- appropriate performance measures (how can the effectiveness of the service or program be gauged?);
- service standards and targets.

Flow Chart for Service Delivery Review



Stage 1 (Chapter 2) **Getting Organized For Service Delivery Review**

Stage 2 (Chapter 3) **Establish Performance Outcomes and Service Standards**

- Develop performance measures
- Set performance targets

Stage 3 (Chapter 4) **Understand And Evaluate Current Performance**

How does current performance compare to your performance targets?

- What is current performance versus targets?
- Do outputs logically lead to preferred outcomes?
- How is demand being managed?
- What are the full costs & benefits?
- How efficient is the service?

Stage 4 (Chapter 5) **Consiuer Internal Improvements**

Could internal improvements be made in a cost-effective manner to meet the desired service levels and outcomes?

- Increase the number of benefits
- Increase the number of outputs
- Decrease the number of inputs
- Decrease the cost of inputs

If internal improvements are successful in achieving service targets and performance outcomes, go to Chapter 8.

If they are not, go to Chapter 6.

Stage 4 (Chapter 6) **Investigate Other Feasible Service Delivery Methods**

Identify range of delivery methods

- Direct delivery
- Purchase of services (including in-house bids)
- Municipal business corporations
- Municipal service boards and other local entities
- Partnerships
- Licensing
- Privatization

Identify barriers to changing methods

Assess suitability of feasible methods

Use the four analytical tools from Chapter 4 to analyze the suitable methods

Stage 5 (Chapter 7) **Select Service Provider**

Define scope of work

Prepare and circulate bid document

Evaluate bids

Prepare and negotiate the contract

Stage 6 (Chapter 8) **Implement, Evaluate and Report**

Execute implementation plan for delivery of the service

- Implement
- Evaluate
- Report on any improvements and barriers to improvements as per section 300 of Municipal Act, 2001

The above become the functional goals of the service or program.

Some municipalities insert a step before Stage 2: Establish Performance Outcomes and Service Standards. In this case, the public interest "test" (*see Appendix 4*) is used to examine a specific service.

Stage 3: Understand And Evaluate Current Performance (Chapter 4)

After completing Stage 2, the temptation is to leap to identifying and implementing ways of achieving the goals. However, as the saying goes, you can't get where you're going until you know where you are. Stage 3 is designed to help you understand and evaluate current performance by providing four analytical tools, using the following questions:

- Do the outputs of the service or program logically lead to the outcomes you are seeking?
- How is demand for the service or program managed?
- What are the full costs and benefits of the service or program?
- How efficient is the service or program?

At the end of this stage, you will have enough information to determine the performance gap in your current delivery method relative to the goals established in Stage 2.

Stage 4

Stage 4 includes two chapters because this stage is a "fork in the road" for the review process. Council can narrow the performance gap by taking one of two paths: making internal improvements or investigating other feasible service delivery methods. Experience demonstrates that the best choice for delivery will vary depending on the unique circumstances facing the municipality and the service or program under review.

Consider Internal Improvements (Chapter 5)

Using the analytical tools identified in Stage 3, municipalities can improve service delivery by:

- increasing the number of benefits;
- increasing the number of outputs;
- decreasing the number of inputs;
- decreasing the cost of inputs.

Many municipalities attempt internal improvement before considering alternative delivery methods. Alternative providers may not be able to deliver a particular service at the same service level or for a lower cost than internal providers.

If the internal improvement strategy is successful, your next step will be Stage 6: Implement, Evaluate and Report (Chapter 8). If this course proves unsuccessful, or if council decides not to proceed by way of internal improvements, go to Chapter 6: Investigate Feasible Service Delivery Methods.

Investigate Other Feasible Service Delivery Methods (Chapter 6)

In this approach, you would:

First, identify the range of possible delivery methods. Several are discussed, including:

- direct delivery;
- purchase of services (including in-house bids);
- municipal business corporations;
- municipal service boards and other local entities;
- partnerships;
- licensing;
- privatization.

Second, identify the barriers to adopting alternative delivery methods. This means screening out methods that are unfeasible owing to legal barriers (the municipality is legally obligated to provide the service or program in a certain way) or market barriers (the private provider market is unable to take on service delivery).

Third, identify feasible methods that are consistent with the unique needs and circumstances of the municipality. This process should leave you with a short list of delivery methods for more in-depth assessment.

Finally, analyze the suitable methods using the analytical tools in Stage 3.

Stage 5: Select A Service Provider (Chapter 7)

After selecting an alternative delivery method, go to Stage 5: Select a Service Provider (Chapter 7). This stage involves seeking providers by soliciting bids from private, public or non-profit suppliers.

Stage 5 walks you through the following steps in the procurement process:

- defining the scope of work;
- preparing and circulating the bid document;
- evaluating bids;
- preparing and negotiating the contract.

However, if council has chosen to improve delivery internally (Chapter 5) and is satisfied with the results of the changes, you can bypass both Chapter 6 and this stage and proceed directly to Stage 6: Implement, Evaluate and Report (Chapter 8).

Stage 6: Implement, Evaluate And Report (Chapter 8)

Council will want to ensure that changes are implemented effectively and that the results are evaluated and reported to citizens (both on successful improvements and on barriers to improvement). This chapter provides guidance on those matters.

1.4 The Ontario Municipal Context For Service Delivery Review

1.1 Why service delivery review?
1.2 What is the purpose of this guide?
1.3 How is this guide organized?
1.4 The Ontario municipal context for Service Delivery Review

Ontario municipalities operate within a specific legislative context in delivering public services. It is important to understand this context before undertaking a review, particularly the role of council and performance and accountability mechanisms. Other important legislative context can be found in *Appendix 2*.

1.4.1 Role Of Council

Council has a critical role to play in reviewing services. This role needs to be communicated to council, staff and citizens early in any review process. Section 224 of the Municipal Act, 2001 sets out the role of council. Many of the broad areas of responsibility prescribed in this provision, particularly the responsibility to set policy and deliver services, affect the review process and must be considered in establishing a review framework. Council roles here are:

(a) to represent the public and to consider the well-being and interests of the municipality;
(b) to develop and evaluate the policies and programs of the municipality;
(c) to determine which services the municipality provides;
(d) to ensure that administrative practices and procedures are in place to implement the decisions of council;
(e) to maintain the financial integrity of the municipality; and
(f) to carry out the duties of council under this or any other Act.

Council's role in service delivery reviews boils down to making choices. Throughout the review process, council will be making choices: what services to deliver; what outcomes they want from the service; who should pay for the service; what they are prepared to ask their citizens to pay for the service; whether the service could be delivered less expensively; whether all the things that go into delivering the service are really necessary; and who should deliver the service. Even a decision not to review a service represents a choice.

1.4.2 Performance And Accountability Mechanisms

The Municipal Act, 2001 and the efforts of voluntary associations and the Ontario government offer ways to ensure municipalities meet the expectations of efficient and effective service delivery and accountability standards.

Section 300 of the Municipal Act, 2001 requires municipalities to provide annual public notice of improvements in the effectiveness and efficiency of their service delivery and barriers to other improvements. This provision encourages municipalities to examine the current state of service delivery. Although under the legislation, the Minister of Municipal Affairs and Housing may designate the form of public notices under section 300, as at the time of publication of the guide, this power has not been exercised.

Practical examples of innovative service delivery methods or best practices in services delivery are available from the Ministry of Municipal Affairs and Housing and from volunteer associations, through:

- The Municipal Performance Measurement Program;
- Ontario's Municipal CAO's Benchmarking Initiative;
- The Ontario Centre for Municipal Best Practices;
- public-private partnership workshops;
- innovative service delivery links at www.mah.gov.on.ca

For more details, see *Appendix 3*.

Chapter Two

Getting Organized For Service Delivery Review

Council's first step should be to establish the review process by addressing the activities in the box below.

Keep in mind that service delivery review is a time- and resource-intensive exercise, one that can involve local sensitive issues. Before undertaking a review, department heads need clear direction and support from council about the value of engaging in this process and a commitment to see it through.

Experience demonstrates that a "champion" of the review is critical. Whether the champion is from council or staff, a person who sees the success of the review as essential to their own goals and is skilled in building and maintaining support for the review is key.

2.1 Develop An Approach To Undertaking Reviews

2.1 Develop an approach to undertaking reviews
2.2 Build accountability into the review process
2.3 Develop or acquire the capacity to undertake reviews
2.4 Decide how to select candidates for review
2.5 Create a citizen-centred approach to reviews

Council will want the municipality's approach to undertaking reviews to be guided by:

- the scope and scale of the service or program under consideration;
- the availability of funding and expertise to undertake reviews;
- strategic and community considerations.[2]

This guide is intended to help the municipality tailor its own approach to reviews, using planning and goal setting, data collection, analysis, action, evaluation and adjustment.

If council intends to review the municipality's services and programs on an ad hoc or one-off basis, then the approach should be specific to the review being undertaken. On the other hand, council may request reviews as part of a broader business or strategic planning exercise (such as a core services review).

Many municipalities have found that if they have clear strategic priorities in place before undertaking reviews, it is easier to make the choices called for by service reviews. Also, having a strategic plan in place is critical if you are considering reviewing a range of services. (For resources to help you conduct broader reviews, see *Appendix 10*.)

2.1.1 Should The Municipality Continue In This Business? The Public Interest "Test"

Before undertaking a review, some municipalities ask the question: Should the municipality continue to provide this service or program, and if so, what need or purpose does it fulfil? While at one time the municipality may have been compelled to provide a service because of a lack of other providers, the need for continued involvement may now be less clear because of the growth of a healthy supply market.

A useful tool for answering these questions is the public interest "test". This tool can be used as part of a strategic planning exercise to determine how to focus the municipality's limited resources, or as the starting point for reviewing a specific service.

The public interest "test" identifies questions that council might consider in determining whether the municipality should continue its formal involvement in service delivery:

- Is the service or program important to meeting citizens' needs?
- Is the service or program important to meeting the municipality's legal or policy mandate?
- What is the service's or program's net cost and benefit to society at large?
- Is the service or program affordable?

For more details on how to undertake a public interest "test", see *Appendix 4*.

2.1.2 What Are The Common Elements And Ground Rules For The Review Process?

Whether council intends to review a service or a range of services, it may create a formal policy that answers the following questions:

- Who will conduct the review?
- What is the scope of the review?
- How often will reviews be undertaken?
- What are the time frames for completing the review?
- What range of possible delivery methods will be considered?
- What functions best fit within the boundaries of review?
- Who are the key stakeholders (e.g., union, residents)? When and how will they be consulted in the review process?
- How, when and to whom will key messages, information and results of the review process be communicated?

Also, for each review, council will want to determine the specific outcomes or deliverables for which the review team will be responsible. For example, what specific documents should the team produce at various stages of the review process and when should the review is completed?

2.1.3 What Principles Will Council Follow In Undertaking Reviews?

Council may count to articulate a set of principles to guide the review process. It is likely that these principles, such as services will be delivered where citizens need them most, would be derived from the municipality's operational business plan and council's strategic objectives.

In addition, council should articulate a set of values or ethics governing the municipality's interaction with its employees, their unions and any partners or external service providers to avoid conflicts of interest and ensure that public interest considerations are respected.

2.1.4 What Process Will Council Follow In Undertaking Reviews?

The six-stage process[3] outlined in this guide can be seen as a generic business-case approach to help council make rational and defensible decisions on how services and programs might be provided to optimize efficiency and effectiveness.

Council will want to consider the six stages against the scale, scope and strategic importance of the service or program in question. Larger-scale services or programs may require a more elaborate review, while smaller undertakings can be reviewed using fewer questions.

As well, before undertaking a review of any given service or program, council or staff may have an intuitive understanding of specific changes that can easily be made and that, if made, would improve delivery. If so (and if council agrees), make the changes.

While each of the six stages forms part of an integrated process, the tools, techniques and considerations in each can be extracted from the overall process and used immediately to improve delivery. For example, in reviewing the flow chart shown in Section 1.3, you might recognize that a certain service could be delivered more efficiently by better managing demand (such as by increasing user fees for water use during peak periods). You don't have to go through the entire review process to investigate this course of action.

2.1.5 Council's Role

In addition to the council role outlined in Section 1.4.1, the municipality might develop a protocol about when and how council and its municipal service boards and other local entities will be involved in service delivery review decisions. Reviews take time to complete and council might, for example, be inclined to authorize a change in delivery of a particular service before a review of that service is complete. Without a pre-existing and clearly communicated protocol, such mid-stream decision-making sends mixed signals to staff about the municipality's support for the review process.

In the six-stage process, the council will have the primary role in the first two stages, will be asked to make a decision at Stage 4 about whether to focus on internal improvements or look at other delivery methods, should be prepared to select a provider (Stage 5), put the supports in place for a successful change effort and communicate results to citizens (Stage 6).

2.1.6 How Will The Review Support Strategic Goals And Approaches?

Council should ensure that the review process is aligned with the municipality's overall strategic and business plans so that it supports the achievement of key municipal outcomes. The review team will want to return to these goals throughout the process of the review.

2.2 Build Accountability Into The Review Process

2.1 Develop an approach to undertaking reviews
2.2 Build accountability into the review process
2.3 Develop or acquire the capacity to undertake reviews
2.4 Decide how to select candidates for review
2.5 Create a citizen-centred approach to reviews

Council needs an accountability framework that addresses what is to be achieved, who is to be held accountable for achieving the agreed-upon results with what time and money (including staff costs), and to whom they are accountable. The framework often takes the form of a project charter or terms of reference for the review.

2.3 Develop Or Acquire The Capacity To Undertake Reviews

2.1 Develop an approach to undertaking reviews
2.2 Build accountability into the review process
2.3 Develop or acquire the capacity to undertake reviews
2.4 Decide how to select candidates for review
2.5 Create a citizen-centred approach to reviews

2.3.1 Staffing Capacity

A range of skill sets and expertise is required for successful service delivery review. This capacity can be drawn from internal departments, including:

- the department currently managing the service or program;
- finance;
- human resources;
- information technology;
- purchasing;
- legal;
- communications and customer service;
- where it exists, business/corporate/strategic planning and internal audit/management consulting.

Municipal experience demonstrates that reviews are most successful when led by someone who is familiar with the operations of the service or program in question. Experience also suggests that successful reviews are assisted by someone external to the municipality's administration who can help bring new management approaches proven elsewhere and who can serve, not as the lead, but as the "honest broker."

Equally important is the involvement of staff from departments that affect or are affected by the service or program under review. For example, since the provision of municipal parking services is linked to the work of departments such as bylaw enforcement, finance, planning and transportation, it is important to involve staff from these areas in a review of parking services.

2.3.2 Review Committees

Council should consider creating an external review committee made up of knowledgeable, independent individuals from outside the municipality to promote transparency and accountability in the review process and to balance perceived conflicts of interest or jurisdictional disputes.

Council might also wish to consider establishing an internal review committee (a "peer review" committee). For example, another department that has undertaken a review could assess the work done, thereby giving those undertaking the current review access to a pool of expertise that might not otherwise be so readily available or affordable.

2.3.3 Contracting For Reviews

Sometimes, competing municipal priorities mean that staff do not have the time to undertake a review. Sometimes no one in the municipality has the required expertise. In cases like these, depending on the costs and the municipality's procurement policies, council might retain external consultants to perform some review functions.

The decision to get outside help to fulfil certain functional or advisory responsibilities is itself a service review decision and may represent the first opportunity to apply the service delivery review process.

Even if external consultants are retained, council is still responsible for determining the overall approach to the review. And, of course, it's a council decision as to what services and programs citizens receive, as well as service levels and performance standards for those services and programs. Making these fundamental decisions is at the heart of the stewardship obligation that council owes citizens.

2.3.4 Financial Capacity

Sufficient funding must be allocated to the review. Funding requirements are largely dictated by the scope of the review (the number of activities being reviewed and the level at which the review is carried out) and its depth (that is, whether the full range of evaluation questions will be asked or just some).

Budget limits may constrain what the review can accomplish. Therefore, council should develop the review policy with funding and operational considerations in mind.

2.3.5 Communications Capacity

Service delivery reviews are complex matters that affect staff, citizens and other stakeholders. Council's ability to provide an open and transparent review process, anticipate the issues that will arise and provide accurate information and clear messages is very important.

Council should develop an overall communications plan that gives staff and stakeholder groups timely information on the process and its results. Depending on the diversity of the target audiences, council may tailor its messages to suit specific groups.

Information should be provided in plain, non-technical language, on a regular basis and through a variety of media (print, electronic, radio or television) to ensure that the right message gets to the right people at the right time.

2.3.6 An Incremental Approach

If there are limits on staffing, funding or other capacities, or if it is unclear whether a particular review is warranted, council may decide not to review an entire service or program. Instead, the most prudent course might be to review either part of a service or a service in part of the municipality. Results and learnings from this approach, gained at modest cost, can be used to gauge the value of launching a review of the entire service or program.

2.4 Decide How To Select Candidates For Review

2.1 Develop an approach to undertaking reviews
2.2 Build accountability into the review process
2.3 Develop or acquire the capacity to undertake reviews
2.4 Decide how to select candidates for review
2.5 Create a citizen-centred approach to reviews

Since different participants in the review will have different views on what constitutes a service or program, council's first step should probably be to develop, on a high level, a common understanding of how broadly or narrowly to define services and programs that are subject to review.

While council may want to review all municipal services and programs, resource restrictions mean that possible candidates should be screened to select those that most require review.

How does council make this decision? The best place to start is with a high-level check of common, strategic and community considerations.

2.4.1 Common Considerations

By common considerations we mean those considerations that, unfortunately, can arise in most or all services and programs. These are usually concerns that council and senior staff will be aware of without having to conduct extensive research or analysis simply because the services and programs:

- are consistently over budget;
- are the target of an inordinate number of complaints from citizens;
- show significant potential for cost savings or other improvements;
- are experiencing unsustainable growth in costs related to labour, energy, materials or other inputs;
- are unable to meet demand or rising citizen expectations about greater choice or better service or accessibility (for example, extended service hours);
- are unable to meet or exceed quality or consistency targets;
- require significant changes to meet industry, professional or legislative standards;
- are subject to significant or increasing risks (financial, environmental, economic, public policy)
- could be delivered by another provider that has indicated a capacity and willingness to take over delivery;

- are consistently underperforming relative to those of other similar municipalities;
- have experienced or are about to experience significant budget or personnel changes that threaten effective delivery;
- have difficulty attracting or retaining staff;
- are new to the municipality;
- are experiencing decreasing revenues.

2.4.2 Strategic Considerations

If the municipality has strategic or business plans that guide decisions on where to allocate resources, council can review services and programs that will further these plans. Similarly, if the municipality has a core services approach to decisions on where to allocate resources, this approach may inform council's choice of what to review.

Strategic considerations also mean reviewing current science and practice in the relevant area (for example, improvements in information technology) as well as pertinent demographic issues and trends (such as the rate of growth of the municipality).

2.4.3 Community Considerations

Every municipality provides certain services and programs that citizens feel are critical to the maintenance of a well-managed society (e.g., police, fire protection, roads, water and wastewater management and land use planning). Underperformance in any of these areas erodes public confidence and the municipality's credibility.

While all underperforming services or programs are appropriate candidates for review, at the top of council's list might be those where sub-optimal performance will be least tolerated by the public. Council might want to get citizen feedback on areas the public considers critical. (See Section 2.5 for tools that can help the municipality do this.)

It is also important to distinguish between services or programs that benefit the public at large (such as parks) from those that have identifiable beneficiaries (such as arenas). Council may want to take different approaches to the challenges faced by each type.

For example, you may be able to increase revenue at an arena through user fees – an option that is not as appropriate for parks. (Council will also want to take different approaches to consulting about each type. Facilities like arenas are often represented by organized groups in the community. A review will involve consulting these groups and balancing their input with the less vocal but equally important input of other stakeholders and the broader public interest in deciding what to do about a particular service or program.)

Finally, any review should be guided by the values that are at the heart of the municipality.

2.5 Create A Citizen-Centred Approach To Reviews

2.1 Develop an approach to undertaking reviews
2.2 Build accountability into the review process
2.3 Develop or acquire the capacity to undertake reviews
2.4 Decide how to select candidates for review
2.5 Create a citizen-centred approach to reviews

Since the municipality exists primarily to satisfy citizen needs, critical areas of the review process will be informed by the views, preferences and expectations of citizens. Council needs to balance those opinions carefully, since the most vocal positions may not accurately reflect the views of council's constituency.

Clear and meaningful citizen input will:

- inform council of services and programs that citizens feel are critical to the public interest (see Section 2.4.2);
- validate or confirm council's intuitive assessment of service and programs that are experiencing sub-optimal performance (see Section 2.4.3);
- help council focus measurement efforts on activities that are relevant to citizens (see Section 3.2);
- help council establish service targets that reflect citizen demands (see Section 3.2);
- provide citizen feedback on satisfaction levels with the current state of delivery of services and programs (see Section 4.1).

2.5.1 How Important Is The Service To Citizens?

When soliciting input from citizens, council will want to find out how important a particular service or program is to them. Council will get the most "bang for the buck" by focusing on services that are important to citizens and that are failing to meet their expectations. Conversely, council may find that expectations are substantially exceeded for a service deemed to be less important. This may trigger a review of whether resources from that service should be reallocated to another service.

Citizen input can also be a rich resource for suggestions on how to improve a service or program. Similarly, the in-depth expertise of staff directly involved in delivery may be an untapped well spring of innovation.

At the same time, citizens want to know how the municipality's services and programs are performing. Section 300 of the Municipal Act, 2001 provides an opportunity to tell citizens about improvements you've made and about barriers to making further improvements. (For more information on Section 300, see Section 1.4.)

2.5.2 Approaches To Collecting Information From Citizens

Three commonly used methods that the municipality can use to obtain citizen feedback include complaints, client satisfaction surveys and citizen surveys. (See *Appendix 5* for details.)

Surveying is a complex field relying on established methods to produce relevant, accurate and appropriate results. For example, there are clear rules for choosing a sample of people to survey and for determining the appropriate size of the sample.

To gather sufficient information to make effective decisions, consider canvassing citizen views on the following areas:[4]

- citizen expectations of the service;
- recent experience with the service;
- the level of importance of the service;
- the level of satisfaction with the service;
- priorities for improvement of the service.

The following elements of citizen perception can also be used to measure a service:

- responsiveness to citizen demands;
- reliability;
- access and facilities;
- communication;
- cost.

2.5.3 Measuring Satisfaction

The way in which you measure satisfaction with a service depends on the particulars of the service or program under review. For example, there is no point measuring citizen perceptions of the cost of a particular service if the service is provided without charge.

The chart on the following page illustrates aspects of the service or program that council might consider measuring for each of the service attributes.

Remember that performance data is most meaningful when it can be used to make comparisons (for example, planned services vs. actual service, or service trends over time or comparisons to other municipalities) and when performance is expressed in measurable terms.

Careful planning is required to select the survey approach that best fits the needs of your municipality, including an analysis of the costs, obstacles, accuracy and reliability of the each method under consideration. (Council may want to consider pilot testing a survey before embarking on full implementation to identify and eliminate any shortcomings.)

You may need to obtain legal advice on surveying and the use of the resulting information if personal information will also be collected.

To sustain information collection year by year, you need to find out whether council is prepared to commit resources to information collection in future budgets.

Attributes	Satisfaction Criteria	
Responsiveness	• Timely delivery of service. • Number of contacts needed to receive service. • Waiting time. • Timely reaction to expressed concerns.	Service staff are: • empathetic; • courteous; • helpful; • skilful and competent; • equipped with up-to-date information; • respectful; • flexible; • fair; • sensitive to privacy/confidentiality concerns.
Reliability	• Provided needed service when required. • Provided what was promised. • Adhered to policy and standards. • Minimal error rate.	
Access & Facilities	• Convenient location. • Physical access to building. • Comfort of offices and waiting areas. • Adequate parking. • Hours of service. • Appearance, clarity and location of signs. • Ease of obtaining appointments. • Telephone access. • Helpful use of technology. • Variety of access modes.	
Communication	• Questions answered fully and promptly. • Information easily available. • Communications provided in understandable language. • Consistency of information/advice. • Services delivered in official or other languages. • Ease of understanding information. • Ease of understanding procedures.	
Cost	• Ease of billing/payment. • Reasonable cost.	

Establish Performance Outcomes And Service Standards

This chapter is intended to help council set goals for the service or program under review.[5]

An Opportunity For Innovation

If you are wondering, "Why should we concern ourselves with determining our outcomes before studying our current performance?", the answer is, in a word, innovation.

When you define outcomes before evaluating performance, you have the opportunity to create something new and meaningful, something innovative. In contrast, if you reverse the order of these two activities, what you are doing is merely problem solving. Problem solving has its place, but innovation is what will truly make a difference.

At first glance, setting goals beyond your municipality's reach may appear impractical given current performance, yet this process is exactly what is needed to foster innovation. Although the tension between the results you want and current performance may be uncomfortable, would reducing your desired outcomes – giving up on what you really want – be the best course? What may be required is an adjustment in the timing of reaching your desired outcomes. Maybe the service standards need to be pushed out two to three years rather than adjusting the service standards themselves.

Finally, the more precise you can be about your desired outcomes, the easier it will be to foster innovation and enlist support. Having clearly described goals that are easy to understand will help you harness the energy of your employees, stakeholders and suppliers in making your goals a reality.[6]

To make your goals specific, ask, "What level of performance do we expect from this service?" Establishing the appropriate level of service is a role for council. Answering the question, of course, requires you to put the expected performance in measurable terms. This chapter will help you develop performance measures and set service standards and targets (that is, the level of performance you expect).

Answering these questions will frame:

- your understanding of the current performance of the service or program (see Chapter 4);
- decisions on improving performance, either by enhancing the current delivery method (see Chapter 5) or by using other delivery methods (see Chapter 6).

3.1 Develop Performance Measures

3.1 Develop performance measures
3.2 Set service standards and targets

Developing performance measures is a three-step process that involves defining the purpose of the service or program, determining outcomes and selecting performance measures for those outcomes.

You may wish to first look to the measures used in the Municipal Performance Measurement Program (MPMP) to get an understanding of the types of measures to consider for your service (see *Appendix 3*). MPMP is a unique program which has gained a great deal of attention from other provinces in Canada and other countries around the world. Municipalities are encouraged to go beyond the prescribed requirements of the MPMP program and develop customized performance measures that reflect their local needs. More guidance about how to do this is provided below.

3.1.1 Define The Purpose

Because performance must contribute to achieving an identified result, before measuring performance for a service or program, you should be clear about the service's or program's purpose. You should be able to state this purpose in a concise way that will be easily understood by someone who is not well acquainted with your municipal operations.

"Purpose statements" are generally crafted at a high level and are not designed to address how or when your purpose is to be accomplished. Instead, they outline what the municipality is trying to achieve over the long term. The purpose statement should answer the following questions:

- **What** is the service or program?
- **Who** is the intended customer or target group?
- **Why** is the service or program needed?

For example, for recreation services, the answers might be: "To provide aquatic and fitness opportunities for youth and elderly residents to promote a healthy community."

Remember, your eventual performance measures should be consistent with and supportive of the purpose statement as well as overall municipal strategic goals.

3.1.2 Determine Outcomes

All services and programs have the following features: inputs, outputs and outcomes.

- **Inputs** are the resources that the service or program uses to produce outputs (such as money spent, staff employed or equipment used).
- **Outputs** are the tangible products and services produced by a service or

Attributes		Performance Measures
Inputs	⇨	Economy
Outputs	⇨	Efficiency
Outcomes	⇨	Effectiveness

program (such as tonnes of garbage collected or the number of fires extinguished).

- **Outcomes** are the impacts that outputs have on citizens (that is, what the service or program makes possible rather than simply what it does). To understand what constitutes your outcomes ask, "What do we want this service or program to accomplish?"

The temptation is to gauge service and program success by focusing on inputs and outputs instead of outcomes. For example, you might consider a service improvement successful if it decreases the amount of time required to process an application. However, if speed does not directly contribute to a better outcome, such as citizen satisfaction, this output will not be what citizens are most interested in.

In other words, in fulfilling the fundamental principles of municipal governance, "doing the right things" (satisfying citizen needs) is far more important than "doing things right." The most efficiently administered service will not add value to the lives of citizens if it doesn't meet their needs. (See Chapter 2 for guidance on identifying citizen needs).

Here is a simplified illustration of the relationship between the attributes of a service or program and the underlying performance measures that can be generated from them:

- **Economy measures** look at the cost of inputs for a service or program compared to a given standard such as market cost.
- **Efficiency measures** look at whether the municipality is getting the maximum output for those inputs (for example, the number of young people reached by an employment program for a given cost).
- **Effectiveness measures** look at whether the outputs produce the desired outcomes (for example, does the service or program result in more young people finding work than would otherwise be the case?).

3.1.3 Select Performance Measures For Outcomes

Having defined the purpose of the service or program under review and identified the desired outcomes, you are ready to develop performance measures. Some measures will be obvious while others will be hard to pin down.

It is essential to develop a range of measures, including "soft measures", to capture critical outcomes. For example, if the municipality contracts with a private company to plant flowers in a local park, the municipality could show the provider a picture of a park that meets the municipality's expectations. The private company would be assessed on its success in achieving the results shown in the picture, since simply using performance measures that gauge success in terms of tangible deliverables (the number of flowers planted or the frequency of weeding and watering) may not, by themselves, produce the kind of park that citizens want. Needless to say, understanding the expectations of your citizens is the key to determining if you're measuring the right things.

Performance data can be obtained from various sources, such as inspection reports, progress reports, or recording devices. While measures can be expressed in raw numbers, percentages and ratios are preferable, because they allow for comparisons.

3.1.4 Characteristics Of Good Performance Measures

In developing your performance measures, consider using the SMART performance measurement model:

- **Specific.** Measures should be specific and clear and should address core elements of delivery rather than peripheral or superficial elements.
- **Measurable.** Although it is easier to monitor quantitative performance (efficiency) than qualitative performance (effectiveness), the latter is often a better way to measure the extent to which your outputs produce the desired outcomes. Finding meaningful and accurate ways to measure qualitative information is often the most challenging aspect of the performance measurement process.
- **Achievable.** Measures should be challenging but attainable, and should contribute to a process of continuous improvement.
- **Realistic.** Measures should be relevant and relate to the service or programs being provided.
- **Timed.** Measure performance at sufficiently regular intervals to permit timely corrective action.

See *Appendix 6* for more information on challenges in developing performance measures, as well as some strategies for addressing those challenges.

3.2 Set Service Standards And Targets

3.1 Develop performance measures
3.2 Set service standards and targets

Once you have determined how to measure performance, you need to choose appropriate performance standards and targets that set expectations for results. Without standards and targets, you will not know the extent to which services and programs are making strides towards achieving desired outcomes.

Service standards are predefined, quantifiable levels of performance that are the basis for judging actual performance. Since they are the starting point for improving performance, they may be set in a three- or five-year time frame. For example, the municipality may have a service standard of clearing snow to the bare pavement on main arterial roads within 24 hours of a snowfall. (Remember that while the municipality often has discretion to set service standards for many service and program areas, legislative provisions determine the standard that the municipality must follow.)

Target levels are generally the current year's goal or a short-term goal for established service standards.

Compared to the high-level purpose statement that outlines the overall goals of the service or program, service standards and targets are a series of time-bound, quantifiable objectives that help council and staff understand how services and programs should be performing. Like performance measures, targets should be clear, quantifiable and expressed in the form of absolute numbers, percentages or ratios.

Service standards and targets should also be strongly informed by citizen preferences and expectations.

Reference points for setting standards and targets might include:

- past performance of the service or program;
- the performance of other municipalities;
- benchmarking against peer groups, service or industry norms and the municipality's own objectives;
- the municipality's policy, legal and strategic mandates;
- resource constraints and costs.

For information on the performance of some Ontario municipalities, consider the Ontario Municipal CAO's Benchmarking Initiative (OMBI), jointly developed by about 20 Ontario municipalities. The aim is to identify best practices in service efficiency and quality in Ontario municipalities.

As well, to support municipalities in the quest for improved service delivery, the Ministry has created the Innovative Service Delivery Links (ISD) web page, which links users to websites operated by other governments and professional organizations that contain information on innovative approaches, theories and practices in the field of municipal service delivery.

For more information on the OMBI, the ISD page and other associations that promote high performance, see *Appendix 3*.

Chapter Four

Understand And Evaluate Current Performance

Once you have identified the services and programs you wish to review and the standard of performance you expect from them, your next step is to develop a solid understanding of current performance and to compare it to the target levels. This process creates a natural tension[7] between where you are and where you want to be.

Using the tools in this chapter, you will gather enough information to present to council members so you can learn their views on how to resolve the tension – by making internal improvements (see Chapter 5) or by investigating alternatives (see Chapter 6). An external review committee can provide a more objective assessment of potentially conflicting views that may emerge once the information is made widely available.

Understanding and evaluating current performance, making adjustments to meet your new goals and then allowing the changes you've made enough time to realize success are time-consuming processes that require patience. This is not the place for "quick fix" thinking.

This chapter introduces a number of analytical *tools that can help you understand and evaluate the current performance of the service or program. These tools can be applied to later stages of the review process as well. Specifically, in Chapter 5, you can use them to guide internal improvement and in Chapter 6, you can use them to compare alternative delivery methods.*

You may be asking yourself, "Why not just use one of these tools?" The answer is that each tool is used to answer a different question. Specifically, the questions they'll help you answer include:

- How does current performance compare to the targets?
- Do outputs logically lead to the desired outcomes?
- How is demand for the service or program being managed?
- What are the full costs and benefits of the service or program?
- How efficient is the service or program?

You should analyse any program or service in the order shown above. After all, there is little point considering how to improve the efficiency of your outputs until you're satisfied that (1) the outputs are really leading to the selected outcomes; (2) all efforts have been taken to manage the demand for them and; (3) you know the full costs of the program or service in order to calculate the efficiency ratio.

Analysing the performance of your current delivery method can be hard work, but it is critical to achieving the performance standards and targets you have established. You will compare actual performance to your new targets. You will expose assumptions about how your services and programs are supposed to work that may cause you to rethink how to achieve your new outcomes. You will find out how (or if) you are managing demand for your services and programs. You will learn what underlies efficiency issues. You will also get a handle on the true costs of providing services and confront the barriers to making service improvements.

4.1 How Does Current Performance Compare To The Targets?

4.1 *How does current performance compare to the targets?*
4.2 Do outputs lead to the desired outcomes?
4.3 How is demand being managed?
4.4 What are the full costs and benefits?
4.5 How efficient is the service or program?

There are many ways to gauge performance, including:

- inspection reports;
- observer ratings;
- demand statistics (for example, waiting lists);
- utilization statistics;
- time-recording devices and systems;
- test scores.

However, the most readily available source of information is your citizens. Performance should be focused on generating outcomes that have value for your citizens. (Chapter 2 examines the importance of citizen input in the review process and discusses a number of ways to obtain this input.)

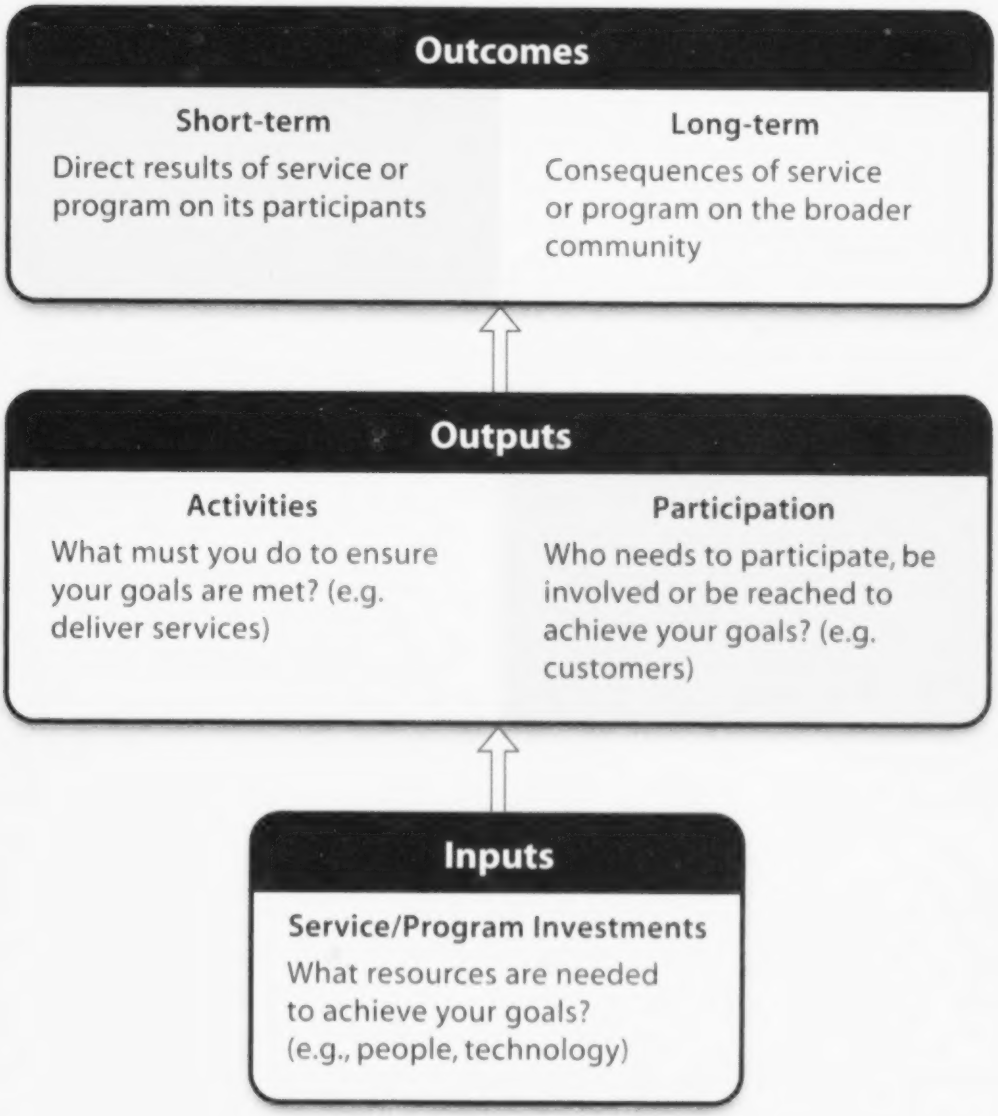
Increasingly, municipalities are using public opinion surveying to determine satisfaction levels. Many are using the Common Measurement Tool or the "Citizens First" initiative by the Institute for Citizen-Centred Service (see *Appendix 5* for more information).

4.2 Do The Outputs Lead To The Desired Outcomes?

4.1 How does current performance compare to the targets?
4.2 *Do outputs lead to the desired outcomes?*
4.3 How is demand being managed?
4.4 What are the full costs and benefits?
4.5 How efficient is the service or program?

To get an accurate picture of the current performance of the service or program, you need to understand the cause-and-effect relationships between the inputs, outputs and desired new outcomes that make up the service or program.[8] Are the existing outputs the best method for achieving the desired new outcomes?[9]

It is often helpful to depict these relationships pictorially to understand their flows and interconnections. This is sometimes called *the program logic model* – a systematic, visual way to present a service or program (and its underlying assumptions) that shows the relationships among the inputs, outputs and outcomes by linking them with arrows. The model enables you to think through what the service or program is trying to achieve, the steps taken to get there and your assumptions on how things work.[10] Having a clear picture of the relationships makes it easier to re-orient or rationalize processes and activities to improve delivery.[11] The direction of the arrows should explain the logic or flow of the components that make up the service or program as follows:


Outcomes
Short-term
Direct results of service or program on its participants
Long-term
Consequences of service or program on the broader community
Outputs
Activities
What must you do to ensure your goals are met? (e.g. deliver services)
Participation
Who needs to participate, be involved or be reached to achieve your goals? (e.g. customers)
Inputs
Service/Program Investments
What resources are needed to achieve your goals? (e.g., people, technology)

As you map the interconnections, consider information about threats (such as the possibility of an economic downturn or disruptions in labour supply) or opportunities that might increase your ability to achieve the desired outcomes.[12]

4.3 How Is Demand Being Managed?

4.1 How does current performance compare to the targets?
4.2 Do outputs lead to the desired outcomes?
4.3 How is demand being managed?
4.4 What are the full costs and benefits?
4.5 How efficient is the service or program?

Once you're clear which outputs lead to the preferred outcomes (and which do not), consider how to manage demand for the outputs you need. Since demand for municipal services tends to outstrip supply and the costs of operating and maintaining services continues to increase, managing demand is an important aspect of service review.

Successful demand management is based on the premise that the municipality's primary role is not to keep increasing the volume and level of service but to align demand with available resources to ensure that genuine needs are met and that community benefit is maximized. For example, a water demand management plan might include limiting water use in dry periods[13] or emergencies through public education, enforcement or incentives. A transportation demand management strategy might include promoting ride sharing or "flex hours" or addressing demand through effective land use planning.

You may already be managing demand even though you don't think of your activities as demand management. For example, limiting the hours when a service is available, pricing a service based on usage[14] or requiring recipients to meet certain eligibility qualifications are all forms of demand management. It is important to identify these in your review and assess their effects.

For areas in which it is difficult to accurately determine demand, economists use a number of techniques. One popular method, called "contingent valuation," is essentially an opinion poll. A cross-section of citizens is asked, for example, how much they would be willing to pay for a particular outcome such as a cleaner environment. Another technique is to rely on the "revealed preferences" of citizens, using observation of current transactions and behaviours to estimate how much people value certain outcomes.

4.4 What Are The Full Costs And Benefits?

4.1 How does current performance compare to the targets?
4.2 Do outputs lead to the desired outcomes?
4.3 How is demand being managed?
4.4 What are the full costs and benefits?
4.5 How efficient is the service or program?

Cost-benefit analysis is an analytical tool that will help you:

- ascertain the costs and benefits of your delivery method;

- assign monetary values to those costs and benefits;
- reduce those values to present day dollars (discount the cash flow).

Unlike a cost-benefit analysis performed by a private company, which might include costs and benefits that are relevant only to shareholders, municipal analysis should incorporate impacts on key stakeholders as well as the community at large. Municipal cost-benefit analysis includes an assessment of non-financial, historical and prospective performance information so that the relationship between inputs, outputs and outcomes is clearly understood.[15]

Below we examine the key aspects of cost-benefit analysis.

4.4.1 Assess Tangible Costs And Benefits

Tangible costs associated with a delivery method include:

- capital costs (such as costs associated with the acquisition, construction and leasing of capital assets);
- operating costs (such as salaries, wages and benefits, training, materials and supplies, facilities or equipment maintenance);
- indirect costs (such as human resources, information technology or records management).

The municipality should have sufficient financial planning expertise on hand to assess the longer-term impacts of the current delivery method, including all of the above types of costs.

Indirect costs, because they are often less obvious than other types of costs, are often overlooked. Your service delivery review can get stalled at this point because of a lack of good information or disagreement over how these costs should be allocated.

Because of efficiencies of scale achievable in the public sector, indirect costs, such as administrative, payroll and legal costs, as well as depreciation and interest expenses, are distributed among many municipal departments. You need to include these costs in your cost-benefit analysis in order to compare the way the municipality delivers the service and the way a private or non-profit provider might cost the same service. This will later help you determine the competitiveness of direct delivery against other options.

The cost of overseeing delivery should not be underestimated. Planning, monitoring, reporting and issues management required for most municipal services and programs can be significant, regardless of how delivery takes place.

Starting in 2002, the Financial Information Return instructions require all municipalities with populations of 100,000 or greater to use their best efforts to allocate program support costs using the method developed by the Ontario Municipal CAO's Benchmarking Initiative (OMBI). The amount consists of the sum of salaries, wages, employee benefits, materials, contracted services, rents, financial expenses and interfunctional adjustments. Smaller municipalities are to allocate program support to other functions based on expenditures for the service as a percentage of total expenditures.[16]

Articulate the *tangible benefits* of your current delivery method in terms of what matters to your citizens. Compare these benefits to the outcomes identified as important in your goal-setting work and to the values that are important to the municipality.

For example, in some municipalities, direct employment of public workers is viewed as an economic benefit to the community. If this is the attitude in your municipality, then you would need to decide on true benefits and costs of this benefit – both the economic costs (such as preventing other providers from coming into the market, driving prices higher or stalling the introduction, in some instances, of labour-saving technology) and the financial costs (that is, the direct costs to the municipality and its citizens.)

4.4.2 Assess Intangible Costs And Benefits

Intangible costs may include:[17]

- the effects of not achieving best practice standards;
- reduced accountability in decision-making and actions;
- reduced productivity.

Try to assign monetary values to the intangible costs and benefits associated with the services and programs. Of course, these costs and benefits may not always be easily or precisely measured in financial terms. Compounding the difficulty in measurement is the fact that many citizens may value a service or program such as a municipal library or swimming pool, even though they never use it personally.

Since not all the information required for analysing costs and benefits may be readily available, assumptions may have to be made to arrive at estimates. Your cost-benefit analysis should spell out these assumptions and their basis – for example, estimates might be based on informal discussions with vendors, experience in other jurisdictions, unsolicited proposals or industry bench marks.

Economists use the same tools to measure intangible costs and benefits (such as contingent valuation and revealed preferences) that they use to determine citizen demand for a service or program (see Section 4.3).

Intangible benefits to consider may include:

- improved employee morale;
- enhanced organizational image;
- better decision-making.

Once you have identified the benefits of the service, assess them against the outcomes you established earlier (see Chapter 3). These are the real benefits that need to guide your decision-making.

4.4.3 Assess Risks

Your services and programs are subject to a variety of risks such as:

- conflict of interest;
- risks to continuity of service;
- risks to governance and accountability;
- legal risks;
- technical risks;
- market risks;

- public policy risks;
- financial risks.

Risks to the health and safety of staff and other stakeholders are of primary concern and are governed by law, regardless of who provides the service.

Risks are essentially contingent costs (that is, the threat that certain costs may or may not be incurred, depending on future events). The possibility that these threats may come to pass represents a risk to successful delivery.

An important part of identifying and valuing costs and benefits is to identify and assign monetary values to the risks that threaten the successful implementation of your chosen delivery method. Because risk assessment is complex, we recommend that you seek professional and legal advice on risk assessment.

Risk assessment involves estimating the probability of a particular risk occurring and applying that probability to the likely financial impact of that risk (based on historical information or forecasts). For example, a municipality plans to build a facility over two years and expects the facility to begin operating in the third year. The construction risk (a higher-than-expected construction cost due to problems such as bottlenecks, strikes, wrong materials being delivered) might have a probability of occurrence of five percent with a financial impact of an additional $200,000 in construction costs in years 1 and 2. The estimated cost of construction risk, therefore, is $10,000 (5% x $200,000) in years 1 and 2. Apply the same principle to other identified risks and add them to the total cost of the delivery method.[18]

Of course, in working through the cost-benefit analysis, it is important to identify areas of possible risk and take action to prevent such risks from occurring.

Your level of effort in quantifying risks will probably be in proportion to the importance, complexity and scope of the service or program. With smaller services and programs, you may choose not to quantify certain risks, but simply assess them qualitatively to determine your risk tolerance. Conversely, the larger or more significant the service or program, the greater will be your need for a thorough understanding of the financial ramifications of the risks involved.[19]

Two of the most relevant (and prevalent) risks are financial risk and public policy risk. For a comparison of financial and public policy risk under the delivery methods identified in the guide, see *Appendix 7*.

4.4.4 Discount Costs, Benefits And Risks

The costs and benefits associated with your delivery method occur at various times. When considering a service's or program's life over several years, cost-benefit analysis discounts future costs and benefits, equating them to smaller amounts in today's dollars, in order to compare them.

Discounting is a procedure developed by economists to evaluate investments that produce future revenue and cost streams. The case for discounting begins with the observation that, say, $100 received today is worth more than $100 received next year, even in the absence of inflation. For one thing, you could put your money in the bank today and earn interest on it. Suppose that your bank account earns three percent interest. In that case, if you receive the $100 today rather than next year, you would earn $3 in interest, giving you a total of $103 next year. Likewise, in order to have $100 next year, you need to deposit only $97 today. So, at a three percent discount rate, economists would say that $100 next year has a present value (a value in today's dollars) of $97.

The following table offers an example of using the net present value calculation to cost a service covering a five-year time frame, using a six percent interest rate.[20] You can see how the full range of costs discussed above has been incorporated into the example. As with most services and programs, there is both a capital component and an operating component to consider.

You now have the information you need to compare your costs with your benefits. This explanation of cost-benefit analysis will have increased relevance as you proceed through the next stages and compare the costs of different delivery methods.

4.4.5 Determine Impact Of The Cost-Benefit Analysis On The Municipal Budget

Cost-benefit analysis is only one part of the picture in assessing a service or program. The next step is to translate your findings from the cost-benefit analysis into the impact on the municipality's tax rates, reserves and debt position.

Also, keep in mind that even though the benefits of a service or program may exceed its costs, in the long run, it still needs to be affordable and sustainable.

4.5 How Efficient Is The Service Or Program?

4.1 How does current performance compare to the targets?
4.2 Do outputs lead to the desired outcomes?
4.3 How is demand being managed?
4.4 What are the full costs and benefits?
4.5 How efficient is the service or program?

Once you have the right outputs to create the desired new outcomes, and once you have identified how you are managing demand for these outputs and you understand the relative costs and benefits of the way you currently deliver your service or program, you need to consider assessing the efficiency of the outputs. Remember that your outputs, no matter how efficient they may be, also have to be both affordable and sustainable.

Your cost-benefit analysis has helped you determine the relationship between your inputs (costs) and your outcomes (benefits) and thus is sometimes regarded as a *cost-effectiveness review.* Determining the relationship between your inputs and your outputs is a study of efficiency.

(You now have information to *measure* the cost-effectiveness and efficiency of your service or program. Information on

Net Present Value Calculation Example

Cost Item (in thousands of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5
Total Capital Cost	$50	$50	$100	$20	$50
Total Operating Costs	$200	$220	$250	$260	$300
Total Indirect Costs	$50	$50	$80	$80	$100
Total Risk Costs	$15	$15	$17	$5	$5
Other Costs	$10	$8	$6	$10	$10
Total Costs	$325	$343	$453	$375	$465

$306.6 ← $\frac{\$325}{(1.06)^1}$

$305.3 ← $\frac{\$343}{(1.06)^2}$

$380.3 ← $\frac{\$453}{(1.06)^3}$

$297.0 ← $\frac{\$375}{(1.06)^4}$

$347.5 ← $\frac{\$465}{(1.06)^5}$

$1,636.70 (total costs)

how to *improve* cost-effectiveness and efficiency is found in Chapter 5).

In conjunction with the goals you have established (goals which you may have to revisit as you work through the review process), Chapter 5 will help you understand the "gap" between your current delivery method and your goals. The tension created by this gap can be the driving force for bringing innovation into service delivery.

The next step is a "fork in the road." Council's task will be to determine how to improve performance – either by undertaking internal improvements (Chapter 5) or by using an alternative service delivery method (Chapter 6). The decision on which path to take will be guided by the municipality's unique circumstances, including strategic, community and resource considerations.

Chapter Five

Consider Internal Improvements

Previous chapters have explained how to establish performance outcomes, set service standards and target levels and assess the current performance of the service or program under review.

In this chapter we focus on achieving these outcomes by making improvements to your current delivery method. For the purposes of this chapter, we assume that method is direct delivery (as it is in most cases). However, a number of the principles outlined in this chapter can also be applied across a range of delivery methods.

Certain potential internal improvements will be obvious from the results of the four types of analysis described in the previous chapter. You may want to portray the necessary actions using a diagram. Draw a box at the top of the page showing your desired end state or outcomes (see Chapter 3). Then draw a box at the bottom showing the municipality's current performance relative to this end state. Use the middle of the page to set out the action steps to move from the current state to the end state.[21]

Your action steps might include:

- finding other ways to realize the desired outcomes (dropping or changing outputs that don't lead to the new outcomes or creating new outputs);
- better managing demand for the service or program;
- addressing the findings from your cost-benefit analysis and efficiency review – either by finding more economical ways to produce the necessary outputs or by seeking more outputs and benefits from existing or reduced inputs.

This chapter is largely focused on working with the findings from the cost-benefit analysis and efficiency reviews. We delve a little deeper into these results so you can identify opportunities for improvement. We also explore some of the costs of making improvements.

But first, three questions to consider.

Are All The Outputs Necessary?

Use the findings from your logic model review (discussed in section 4.2) to identify any *outputs* that are not significantly advancing your chosen *outcomes*. Also, identify threats to realizing your outcomes (such as the possibility of an economic downturn).

In addition to the internal improvements discussed here, you will want to consider the range of management considerations that can impact efficiency and effectiveness of service delivery. As noted in Section 1.2, these can include, for example, organizational structure, staff roles and responsibilities, incentive systems, how information and knowledge are shared, how resources are allocated and how decisions about staffing, strategies and operations are made and implemented.

This may mean generating more or different outputs.

Each municipality has limited resources. Support for an unnecessary output in one service may be at the expense of inadequate support for a critical output in another service. Be prepared to research how other municipalities achieve the outcomes you want in your municipality. You may need to re-examine the municipality's role in the delivery process and set a new role, for example, as funder, adviser, facilitator, manager or regulator (see *Appendix 4* for more information).

How Are You Managing Demand For Your Service?

Consider the findings from your review of how demand for the service or program is managed. Which measures are effective and which ones are not? Find out what other municipalities do to manage demand.

Some demand management measures are depicted in the following chart.[22]

Depending on the nature of the service or program under review, you may want to explore more than one approach. However, competing considerations, such as the municipality's legal mandate, market forces or budget constraints, may affect your ability to alter demand. For example, a policy position of maximizing access to public facilities may mean that you cannot curb demand by charging high user fees for municipally-run swimming pools.

Education

Aims to influence the level of demand by making citizens aware of the financial, social and environmental costs and benefits of their actions.

Pricing

Aims to change demand by altering the unit price charged for a service or program.

Technological Innovation

Can result in less resource-intensive solutions to meeting demand or provide alternative measures to offset demand.

Management Procedures

Involves changing administrative and management practices to alter the way services and programs are supplied, to whom they are supplied and the resources used to meet demand.

Regulatory or Operational Changes

Involves legislative prohibitions or restrictions to change demand.

Citizens' attitudes to demand management initiatives vary depending on factors such as:

- the availability of substitute services and programs;
- the financial cost to citizens of changing their pattern of use of a service or program;

- incentives to change use;
- the likelihood of an improvement in the quality of life for future generations resulting from a shift in demand;
- the extent of citizen reliance on and use of the service or program;
- the ability of citizens to change their consumption patterns.

What Have You Learned From Your Cost-Benefit Analysis And Efficiency Analysis?

Your cost-benefit analysis and efficiency reviews may have identified a number of significant actions you want to consider to improve the performance of your current delivery method.

Keep in mind that municipal staff represent a rich but often overlooked source of critical information for internal improvements. For example, the local garbage collector may be in the best position to suggest improvements to residential waste collection practices. Various tools are available to encourage candid input from staff, such as private voice mails, confidential e-mails and web-based suggestion forms. In implementing such approaches, keep in mind any privacy or freedom of information considerations.

Now, for a closer look at *improving* cost-effectiveness and efficiency, you may want to look at the following five issues.

5.1 Increase The Number Of Benefits

5.1 Increase the number of benefits
5.2 Increase the number of outputs
5.3 Decrease the number of inputs
5.4 Decrease the cost of inputs
5.5 Consider the costs of change

To increase the number of benefits, look closely at the desired outcomes you identified and especially at what your citizens consider important.

For example, if responsiveness is very important and customers judge this based on the number of contacts they need to make to receive a service, then consider a "single counter" approach (direct or virtual) staffed by people who are fully trained in all aspects of the municipality's operations and knowledgeable about who does what within the organization.

The cost-benefit analysis will also have highlighted a range of other benefits – both tangible and intangible (see Chapter 4). Which ones are critical to your service or program?

Use your logic model to understand which outputs lead to the benefits you've identified as critical. The next section helps you increase those outputs.

5.2 Increase The Number Of Outputs

5.1 Increase the number of benefits
5.2 Increase the number of outputs
5.3 Decrease the number of inputs
5.4 Decrease the cost of inputs
5.5 Consider the costs of change

Consider strategies to increase the outputs of your services and programs, including *maximizing* asset use. This means getting the most out of municipal assets and facilities by using them for a variety of purposes (sometimes referred to as "sweating the asset").

For example, a recreation centre might be used to host business meetings or conventions when not otherwise in use.[23] The ability to get more outputs from municipal assets (and thereby extract additional revenues) is often an incentive to attracting private-sector participation in service delivery.

5.3 Decrease The Number Of Inputs

5.1 Increase the number of benefits
5.2 Increase the number of outputs
5.3 Decrease the number of inputs
5.4 Decrease the cost of inputs
5.5 Consider the costs of change

Ask yourself, "Are each of the inputs logically required to generate the outputs?" Once you understand the interrelationships between the different components of your delivery method (the logic model will help), you'll be in a better position to see whether your outputs depend on the inputs that feed into them.

Here are some strategies for decreasing the number of inputs.

5.3.1 Eliminate Red Tape

Some activities add unnecessary, uncoordinated or unjustifiable requirements, restrictions, or compliance/implementation/administrative costs to the delivery process. The key to finding red tape is to ask why a step in a process is needed, who receives the output of that step and how the results meet citizen needs.

5.3.2 Eliminate Duplication

Duplication may lower efficiency. Multiple staff entering the same data in different formats is an example of duplication that could be eliminated.

5.3.3 Conduct Value Analysis

This is the process of evaluating each activity in the delivery process to determine its contribution to meeting customer requirements. Ask yourself, "Would citizens be willing to pay us to do this?" If the answer is no, the activity may not add value. On the other hand, some activities that may not add direct value for citizens are still necessary or required to administer the service or program. The key is to determine how to undertake these activities as efficiently and effectively as possible.[24]

5.3.4 Make The Best Use Of Technology

Examples abound of how municipalities engage technological innovation[25] to decrease the cost or increase the effectiveness of service inputs, thus reducing the amount of input needed. For instance, the municipality might use less salt to de-ice its roads by using multi-purpose trucks capable of wetting their salt load before dispersal.

5.3.5 Create Economies By Sharing Services

Consider the benefits of combining functions across a range of departments, for example, by consolidating back-office activities (such as legal, financial, IT and human resource functions) that are common to many municipal operations. Consider also the possibility of co-locating certain services with the services of the provincial and federal governments. This can also bring the added benefit of enhanced customer service as discussed in Chapter 2.

Keep in mind that each municipal service and program is complex and a full understanding of the logistics of the service or program under review is required to recognize opportunities for improvement. For example, getting timely information about where to send snow ploughs and sanders in a winter storm can be a challenge. A way to deal with this challenge could be training your transit drivers to report problem road conditions to public works.[26]

5.4 Decrease The Cost Of Inputs

5.1 Increase the number of benefits
5.2 Increase the number of outputs
5.3 Decrease the number of inputs
5.4 Decrease the cost of inputs
5.5 Consider the costs of change

The term economy refers to the relative cost of inputs compared to a given standard (such as market cost). Many reliable performance management approaches are available to help you improve the economy of the inputs of your services and programs, such as:

5.4.1 Error Proofing

This is the process of reducing the potential for error in the delivery process. Helpful information about this is available from the National Quality Institute at www.nqi.ca

5.4.2 Standardization

Select a single way of doing an activity and have staff comply with that single method. For processes and activities that are fundamentally similar, using a standardized approach may increase efficiency and accountability. However, it would be inappropriate to use standardized approaches for all stages in the delivery process as some activities require tailored applications or present challenges that call for unique solutions.

5.4.3 Simplification

This involves reducing complexity in the delivery process. Similar activities may be spread throughout a process.

Simplification looks for advantages to be found in blending and consolidation.

5.4.4 Competitive Sourcing

By using a competitive bidding process involving requests for tenders or requests for quotations to procure inputs to services and programs, you can secure the lowest available price for the inputs you need. (For more information on procurement, see Chapter 7.)

5.4.5 Volume Leveraging

You may be able to secure pricing discounts from suppliers because of the high-volume nature of many municipal purchases. The municipality might also take advantage of buying power gained by forming consortiums with other municipalities.

5.4.6 "Just-In-Time" Supply

The longer inputs sit idle waiting to be used in a service or program, the greater are your:

- **Opportunity costs.** Because a dollar today is more valuable than a dollar tomorrow and because most inputs to municipal services or programs are non-appreciating assets, money used to purchase inputs that are not currently being used is money that could more profitably be invested or used to create a positive return for the municipality. Money is wasted when it is tied up in unproductive inputs.
- **Storage costs.** Tangible inputs for future use must be stored somewhere. With the increasing cost of storage space in many municipalities, storing large volumes of "hard" assets may become an increasingly costly proposition.

To address these costs, consider altering your supply system so that you have on hand only what you need to fill near-term demand. You should, however, ensure that you have reliable forecasting and planning capabilities so you won't be left short during unexpected spikes in demand for services and programs or at times when supply is scarce.

5.4.7 Supply Chain Management

This is more encompassing than volume leveraging and "just-in-time" supply and consists of the processes and transactions involved in the ordering, movement and payment for goods from suppliers to customers. Four overarching processes can be identified:[27]

- **planning:** product evaluation and selection, supplier review and selection, demand planning;
- **sourcing:** information processes including contracting, ordering, expediting and reconciliation;
- **logistics:** physical processes, from the supplier to the end-user, including returns;
- **payment:** financial processes, including payment, rebates and performance tracking.

5.4.8 Managing Labour Costs

Consider issues such as:

- absenteeism management;
- employee wellness programs;[28]
- improving comparative bargaining information;
- improving management bargaining skills;
- WSIB claims management;

- benefits management;
- overtime cost management;[29]
- maximizing productivity by aligning staff scheduling with workload demand;[30]
- in-house bids (for details on this, see *Appendix 8*).

Many resources are available to help you manage labour costs. For the municipal sector in particular, the Ontario Municipal Human Resources Association (OMHRA) offers a range of services for its members, including a database of municipal collective agreements, conferences and a training certificate program with the Ontario Municipal Management Institute.

The Ontario Ministry of Labour, through its "Interactive Solutions" program, offers joint training for labour and management representatives to improve the parties' day-to-day relationship (for example, dealing with grievances) as well as joint training on interest-based bargaining.

5.4.9 Other Strategies

Input costs often can also be reduced through strategies such as:

- protecting and preserving the value of existing physical assets;[31]
- drawing on the labour and expertise of volunteer communities;
- cross-training/multi-tasking staff to maximize productivity;[32]
- self-service opportunities.

For more information and examples of the strategies discussed in this chapter, see the Ontario Centre for Municipal Best Practices (OCMBP) and other groups that promote high performance and accountability standards for the municipal sector. Some of these groups are listed in *Appendix 3*.

5.5 Consider The Costs Of Change

5.1 Increase the number of benefits
5.2 Increase the number of outputs
5.3 Decrease the number of inputs
5.4 Decrease the cost of inputs
5.5 Consider the costs of change

While most of the efforts suggested in this chapter are focused on reducing costs, additional new costs may arise from any type of change. Some costs may be directly related to new technology or training to equip staff to respond to citizen enquiries. Sometimes you have to spend money to save money (for example, implementing an effective employee absenteeism program may have significant monitoring costs). Still other costs may be of the intangible variety discussed in Chapter 4, such as employee morale.

There may also be new risks inherent in any service improvement that you will need to cost out.

At the same time, discontinuing a service or program may not result in cost savings, when a cost remains constant because it is functionally connected to other ongoing processes. Such costs are sometimes referred to as "non-go-away costs." Determining how to include these costs in the budget process can be a complicated exercise.

Certain *non-recurring costs* may be incurred when you undertake internal improvement or change delivery methods (see Chapter 6). You should consider these costs in your cost-benefit analysis. Non-recurring costs are costs that occur a single time in a project and could include such items as:

- labour adjustment costs;
- costs associated with terminating leases or other contractual obligations;
- costs from the sale or purchase of assets.

Each of these costs may act as a barrier to improving service delivery.

Labour adjustment costs may be especially high when the municipality makes changes in service delivery, because of the following:

- **Severance entitlements.** Efficiency gains acquired through internal improvements may, at times, result in the elimination of jobs. Unions and employees will be very concerned about the mechanisms for compensating those employees who lose employment. You should consider not only the severance payable to an employee upon termination but also the timing of the payment. Collective agreements may contain provisions for severance entitlements beyond those prescribed by the Employment Standards Act, 2000.
- **Job security provisions.** Collective agreements may contain job security provisions that affect your ability to make changes in the delivery of your services and programs. For example, some collective agreements require employees with a certain level of seniority to be offered alternative employment within the municipality or retraining if their position is discontinued.
- **Pension entitlements.** Employee pension entitlement rights can be affected if changes in organizational structure result in the elimination of jobs. Termination of employment does not always sever an employer's obligation with respect to employee pension entitlements and may represent a continuing or immediate financial exposure that must be considered when making changes in delivery.

Chapter Six

Investigate Feasible Service Delivery Methods

Previous chapters have shown how to establish preferred outcomes for the service or program under review; create appropriate measures to gauge success in attaining those outcomes; and assess the current performance of the program or service. You may have arrived at this chapter directly without having undertaken improvements in your current delivery method (as described in Chapter 5) or you may have arrived here after studying or implementing internal improvements and finding that they won't achieve the preferred outcomes.

6.1 Understand The Context Of Alternative Service Delivery

6.1 Understand the context of alternative service delivery
6.2 Investigate the range of delivery methods
6.3 Identify barriers to changing delivery methods
6.4 Identify suitable delivery methods
6.5 Assess the risks with the delivery methods
6.6 Determine the costs and benefits of the delivery methods

6.1.1 What Is Alternative Service Delivery?

In this guide, alternative service delivery (ASD) is defined as the process of public sector restructuring that improves the delivery of services to citizens by sharing municipal functions with individuals, community groups, the private sector or other government agencies.[33]

By using ASD, the municipality concentrates on the activities that it is best equipped to provide while allowing other sectors to carry out those activities that they do best.

6.1.2 Why Consider ASD?

Some of the possible benefits offered by ASD may include:

- stable or enhanced service levels;
- access to new sources of capital;
- cost reductions;
- potential for process innovations;
- access to expertise not available in the public sector;
- promotion of strategic private-sector industries;
- shared risk.

At the same time, there are a number of possible risks associated with ASD, such

Experience shows that in certain services and certain circumstances, a "mixed" delivery model (where part of a service is delivered directly and part by alternative methods) may produce the greatest gain for the municipality. This model can bring benefits generally associated with delivery by the private sector, such as lower prices and an innovative environment, without the drawbacks associated with a monopoly supply market, such as higher costs and lower service levels.

Several tools are presented here to help you examine alternative service delivery. Additional tools, as well as studies on alternative service delivery, are found in *Appendix 10* under "Alternative Service Delivery".

as higher capital borrowing costs and other transaction costs. Risks are discussed in greater detail in sections 6.4 and 6.5 of this chapter. Careful research is required to determine whether the benefits outweigh the risks for a given service or program using the particular alternative methods under consideration.

6.1.3 ASD Success Factors

Factors identified as key to successful implementation of ASD include:[34]

- **Organizational champions.** The kind of significant change that often accompanies ASD can be accomplished only with the ongoing efforts of committed internal leaders (both elected and appointed) who focus on breaking down barriers.
- **Rewards for successful implementation and tolerance for mistakes.** The pursuit of innovative ways to improve delivery may occasionally take you down unfamiliar paths resulting in unintended and disappointing results. However, meaningful innovation can occur only in an environment in which staff are free to try new ways of doing things without fear that failure will be punished. Promoting an organizational culture that encourages reasonable risk-taking is key to fully exploiting the advantages of ASD.
- **Political will, public consensus and stakeholder support.** Successful implementation of any form of ASD will require the continued commitment of council. An ASD initiative is enhanced when there is a process in place to consider the interests and concerns of all relevant stakeholders.
- **Adequate resources, including expertise.** Depending on the service or program involved, implementing ASD may turn out to be a time- and resource-intensive exercise requiring input from various professionals across a variety of disciplines. It is important that you have access to a sufficient body of expertise for a sufficient period of time to carry the process through from conception to post-implementation.

6.1.4 Accountability, Control And Management

The extent to which municipal control is maintained under ASD methods is not so much determined by the particular form of delivery method used as it is by the operational environment in the municipality. For example, for a particular service that is delivered directly, municipal control may be affected by restrictive collective bargaining provisions or by outdated management control systems. On the other hand, a purchasing arrangement for a similar service may have strong monitoring, reporting and evaluation systems backed by staff trained in service management so that the municipality has much more control.

In typical ASD arrangements such as the external purchase of services, the municipality will still be accountable for some aspects of delivery. Genuine accountability depends on the reporting regime council establishes to give citizens timely and meaningful information on the success of the service or program – hence the critical nature of fulfilling the reporting requirements under section 300 of the Municipal Act, 2001. However, too much emphasis on accounting for results can result in too little emphasis on improving performance. Council will want to find a reasonable and prudent balance of these objectives.

Managing in an ASD environment is largely about managing a business relationship in which the public and private sectors have different strengths and each has differing perspectives of the strengths of the other.

For example, private providers might feel that the public sector does not completely understand:[35]

- the financial requirements and objectives of business;
- the expenses involved in the procurement processes;
- the importance of efficiency;
- the costs of time delays and unnecessary steps in the delivery process.

For its part, the public sector might feel that private providers do not adequately consider:

- the public policy objectives of government;
- the high levels of accountability in the public sector;
- changing priorities as a result of changing voter expectations and pressure from the media and interest groups;
- the potential implications for council if the service does not meet its objectives.

6.2 Investigate The Range Of Possible Delivery Methods

6.1 Understand the context of alternative service delivery
6.2 Investigate the range of delivery methods
6.3 Identify barriers to changing delivery methods
6.4 Identify suitable delivery methods
6.5 Assess the risks with the delivery methods
6.6 Determine the costs and benefits of the delivery methods

While literally dozens of ASD methods have been developed, identified below are some of the more common methods used in municipal service delivery.

- direct delivery;
- purchase of services;
- municipal business corporations;
- municipal service boards and other local entities;
- partnerships;
- licensing;
- privatization.

6.2.1 Direct Delivery

Under this traditional delivery method, the municipality has full responsibility for producing, funding and providing the service or program, normally using municipal employees. Most municipal services and programs are provided in this way.

6.2.2 Purchase Of Services

The **external purchase of services** ("contracting out") occurs when the municipality hires another service provider either:

- to deliver municipal services/programs with private sector employees (an "operations and maintenance" contract); or
- to manage them using municipal employees and resources (a "management services" contract).

The external purchase of services is usually initiated through competitive bidding or a negotiated contract. The municipality continues to pay for the service or program and is ultimately accountable for its provision without being directly responsible for its provision. For example, a private-sector company might contract with the municipality through the competitive bidding process either to provide waste collection and recycling services or to supervise the municipal staff who provide this service.

In the **internal purchase of services** ("contracting in," or "in-housing bidding") internal staff compete with external parties to provide the service or program. For example, an employee group might submit a winning bid through the competitive bidding process to provide fleet services for the municipality.

Section 271 of the Municipal Act, 2001 requires municipalities to have policies about the circumstances in which "in-house" bids will be encouraged as part of the tendering process. For more details on in-house bids, see *Appendix 8*.

With in-house bidding, as with any other indirect delivery method, it is essential to avoid perceptions of unfair advantage and conflict of interest. The municipality will want to maintain an arm's-length relationship with the in-house provider throughout the procurement process – from settling the bid specifications through to the bid selection. This is an area of legal and professional and public policy sensitivity and you are advised to seek legal and professional advice on the process.

6.2.3 Municipal Business Corporations

Section 203 of the Municipal Act, 2001 permits municipalities to form municipal business corporations to provide municipal services and new facilities. The corporations may be wholly owned by the municipality or may have varying proportions of private and non-profit ownership (up to 49% external ownership). This, too, is an area of both legal and public policy sensitivity, and legal and professional advice will be needed to set up such corporations.

Municipal business corporations strengthen management by focusing on business efficiencies and flexibility, as well as by injecting investment capital into public services and infrastructure.

Among other requirements, under the business corporations regulation of the Municipal Act, 2001, municipal business corporations are restricted to specific permitted objects which currently include the operation and maintenance of:

- public transportation systems;
- residential waste management services;
- economic development promotion services;
- administrative services;

- certain types of capital facilities under Section 110 of the Municipal Act, 2001.

The regulations also provide for significant public accountability, requiring the incorporating municipality to prepare a business case in support of the corporation. The business case must deal with issues specified in the regulation and be made available to the public as part of a required public notification process prior to the setting up of the corporation. (See *Appendix 2* for more information.)

As an example of this type of entity, the municipality might create a corporation to develop new systems for public transit, based on a business case analysis indicating that this method provides better value to the community than alternative methods.

6.2.4 Municipal Service Boards And Other Local Entities

The municipality may give service delivery responsibilities to a municipal service board or other local entity while the municipality maintains some functions. For example, if the municipality needs a community centre, council may provide for its governance by establishing a municipal service board.[36]

6.2.5 Partnerships

With public-private or public-public partnerships, the municipality joins with another party to provide municipal services and programs.[37]

These partnerships are not necessarily characterized by a procurement process but by the establishment of long-term business relationships between the partners. Each partner contributes resources and shares risks and rewards. The partnership may be with an external public agency, a private company or a volunteer organization[38], among others.

A **public-public partnership**, generally speaking, is a relationship or intergovernmental agreement in which two or more jurisdictions, at any of the three levels of government, arrange to deliver public services or programs. The partnership can be achieved through shared services - a joint service agreement in which two or more jurisdictions act together to plan, finance and deliver a municipal service or program. For example, to achieve economies of scale or to capitalize on complementary expertise, the municipality and a school board might jointly develop and build a multi-use facility such as a combined school and public library.

A **public-private partnership**, generally speaking, is an agreement or relationship between the municipality and a private-sector provider to accomplish defined objectives. These partnerships (sometimes called "P3s") are often used to design, finance, build and operate public facilities or services with both parties pooling their resources and sharing profits or losses from the enterprise. Such arrangements usually differ from conventional service contracting in that the private partner usually makes a significant cash-at-risk, or equity investment, while the municipality gains access to outside financing or expertise.

In a P3, the municipality is ultimately accountable to the public for decisions and results while sharing responsibility for achieving planned objectives with its partner. For example, the municipality might partner with a private-sector developer with strong financial capacity and facility maintenance experience to construct and maintain an arena. The municipality gains a ready source of development capital (and a means of maintaining the project) and the private-sector partner gains a stable and long-term revenue stream. For more information on P3s, see *Appendix 10* under "Alternative Service Delivery."

6.2.6 Licensing

With licensing, the municipality sells its legal interest in a service or program to a person or business. For example, if a municipality has developed leading-edge geographic information system (GIS) technology, it might extend licenses to private firms to use the technology.

6.2.7 Privatization

Although there is no standard definition of privatization, it may involve a sale of assets or the transfer of capital from the public sector to a private-sector company. Privatization may occur in circumstances in which there is no continuing public policy reason for retaining the service or program within the municipality or in which the public interest can be protected through regulation.

One significant difference between privatization and the external purchase of services is that with privatization, accountability for delivery shifts from the municipality to the private sector provider, whereas with the external purchase of services, the municipality continues to be accountable for the function.

A precondition to considering privatization is the existence of a pool of private firms with the capacity and expertise to deliver the service or program. Another challenge when considering privatization is sharing risk. Generally, private businesses will not take on services for which risks cannot be managed effectively.

As an example of privatization, a municipality might decide to sell certain non-essential businesses, such as marinas or golf courses.

6.3 Identify Barriers To Changing Delivery Methods

6.1 Understand the context of alternative service delivery
6.2 Investigate the range of delivery methods
6.3 Identify barriers to changing delivery methods
6.4 Identify suitable delivery methods
6.5 Assess the risks with the delivery methods
6.6 Determine the costs and benefits of the delivery methods

Though the range of possible delivery methods at council's disposal may seem infinite, the municipality's ability to consider in detail all available methods – in terms of time and other resource limitations – is not. Before council invests time, energy and money into reviewing these options, you need to identify operational constraints that would disqualify certain options.

After eliminating methods that are obviously unfeasible because of institutional, administrative or financial barriers, council should be left with a short list of methods to consider, each having unique attributes, structures and implications for municipal administration.

A "feasibility test" might consider:

- legal feasibility;
- market feasibility;
- funding considerations.

6.3.1 Legal Feasibility

If legislation requires a particular kind of municipal involvement in a service or program, delivery methods that preclude that type of involvement will not be feasible. For example, Ontario's social assistance legislation (Ontario Regulation 136/98) establishes that the function of determining eligibility for assistance under the Ontario Works program can be delivered only by a delivery agent (i.e. certain municipalities or boards) or a District Social Services Administration Board.

Legal advice should be obtained at an early stage for any service delivery method changes. Similarly, get the advice of other professionals (such as valuators, accountants or engineers, as appropriate) early on in the process.

6.3.2 Market Feasibility

The success of ASD methods that involve partial or full transfer of delivery to a private sector provider depends on the existence of a competitive market. However, for a particular service or program, competition may dwindle after the initial bidding process due to market conditions such as entry barriers to private firms, stringent regulations or extensive municipal oversight.

In these circumstances, the municipality might risk inadvertently creating a private monopoly by awarding the delivery contract to a single provider and thus reduce the incentives for long-term cost savings or the maintenance of acceptable service levels. The likelihood and impact of this risk should not be overestimated, however, as it is very difficult to accurately predict how a market will react to an ASD initiative because of the range of variables at play, both local and international.

6.3.3 Funding Considerations

Certain services or programs may be funded in whole or in part by other levels of government. These governments may attach obligations to their funding that could directly or indirectly preclude consideration of certain ASD approaches.

For example, another level of government may require the municipality to repay grants if the assets of that service or program for which the grant was provided are sold to another party. Depending on the amount of funding extended, this term may make ASD methods such as privatization financially unfeasible.

6.4 Identify Suitable Delivery Methods

6.1 Understand the context of alternative service delivery
6.2 Investigate the range of delivery methods
6.3 Identify barriers to changing delivery methods
6.4 Identify suitable delivery methods
6.5 Assess the risks with the delivery methods
6.6 Determine the costs and benefits of the delivery methods

After identifying the barriers to changing delivery methods, a number of possible methods may be eliminated. However, there is no one perfect way to deliver municipal services and programs, and in all likelihood council may still be left with more than one feasible method.

Finding the best method depends on many factors that are unique to each service or program. The following table outlines important criteria that may assist council in making a decision.

Choosing a Delivery Method

Service Delivery Method	May be Suitable When...	May Not Be Suitable When...
Direct Delivery	• Council has a statutory duty to provide the service or program or there are compelling practical, policy or user issues • No developed supply markets for the service or program exists • Impartiality and equity in the delivery of services are essential • Stability and continuity of delivery are required	• Well developed supply market for the service or program exists • There is a need to respond to rapidly changing circumstances
Purchase of Services (operation and maintenance OR management services)	• New capital investments, assets or expertise are needed and are not available in-house • Service or program could benefit from a new approach or from a profit-making perspective	• Service problems are small-scale • Private-sector interest in the service or program area is lacking • Concerns exist over the ability of non-municipal providers to deliver an adequate level of service

Service Delivery Method	May be Suitable When...	May Not Be Suitable When...
Municipal Business Corporations	• Service fits into eligible purpose for a municipal business corporation under regulations under s.203 of the Municipal Act, 2001 • Municipal Business Corporations can be supported by required business case analysis (see Section 203 regulations) • Similar considerations as Public-Private Partnerships in the case of Municipal Business Corporations that have shared equity	• Municipality is not prepared to meet the business case requirement • Project is of small value or needs to be in place quickly • Risks or costs are too high
Municipal Service Boards, Local Boards	• Same as direct delivery of service or program but where delivery would benefit from a greater degree of arm's-length relationship to municipal government	• Direct accountability to municipal council is important
Public-Private Partnerships	• Projects are of significant capital expenditure and the municipality does not wish to commit the financial resources but the project is affordable to the municipality • Potential for revenue generation exists • Project cannot for practical reasons be delivered in-house • New capital investments (or assets) are needed and are not available in-house • Bringing in expertise, innovation and additional resources is necessary or beneficial • Municipality is prepared to share operational, financial and other risks and does not wish simply to procure the service • Municipality is willing to retain risks that the private sector cannot control, quantify or ensure	• Legal or technical advice is not obtained first • The project is extremely complex, high-risk or needed evaluation expertise is not available • Project is of small value or needs to be put in place quickly • Ability to generate sufficient investment for the service or program in the future exists and there is a possibility of bringing in capital or expertise in another way • Project requires a solution that cannot be largely replicated and applied elsewhere by private-sector partner • Project faces significant risk of obsolescence • Demand for the outputs of the service cannot be practically managed • Risks are difficult to assess and manage

Service Delivery Method	May be Suitable When...	May Not Be Suitable When...
Licensing of Municipal Property	• Opportunity for revenue generation out of ongoing municipal function • Significant professional expertise is available • Ability to innovate is important • Replicating success is feasible	• Demand for the service or program is low and it is difficult to reach a discrete or vulnerable group • Private-sector interest in doing the work is lacking
Privatization	• Little or no public interest reason for continued municipal involvement in service or program • Cost of provision outweighs benefits • Many other providers whose service is better and/or less expensive than the municipality's exist • Winding down the service or program and moving to an alternative could be achieved relatively rapidly and with minimum disruption • There is a need to respond to rapidly changing circumstances • Expected revenue or proceeds are high	• Demand for the service or program may be low and it is difficult to reach a discrete or vulnerable group • Private sector interest in the service or program area is lacking

6.5 Assess The Risks With The Delivery Methods

6.1 Understand the context of alternative service delivery
6.2 Investigate the range of delivery methods
6.3 Identify barriers to changing delivery methods
6.4 Identify suitable delivery methods
6.5 Assess the risks with the delivery methods
6.6 Determine the costs and benefits of the delivery methods

Chapter 4 included a brief discussion of the risks associated with the current delivery method. As well, the risk of replacing a public monopoly with a private one was discussed earlier in this chapter. The information in each instance applies to the range of service delivery alternatives.

Municipal experience demonstrates that, depending on the service and the circumstances, there are significant risks in completely divesting the municipal capacity to provide the service: the municipality may be left with no direct knowledge of the issues in managing the service (impairing its ability to effectively manage contracts for the service); a helpful incentive on the ASD provider to remain competitive is effectively removed; a critical service may not be available when needed, e.g., snow clearance where a snowstorm occurs outside of the season that snow removal services were contracted for. Risks need to be assessed and care taken in determining the minimum level of capacity that is required.[39]

While municipal services and programs are subject to a variety of risks, the most relevant and prevalent are legal, financial and public policy risks. The extent of your exposure to each will vary depending on the specific delivery method employed. Professional advice is recommended. For a discussion of some of the financial and public policy risks associated with each of the ASD methods in this guide, see *Appendix* 7.

Chapter 8 contains information on managing risk by obtaining sureties from service providers that join with the municipality in the delivery process. This remedial approach may mitigate municipal exposure when performance expectations have not been met. However, ASD affords other opportunities to manage risk by assigning risk to the party most able to bear it.

You should periodically assess the effectiveness of your risk management measures both to avoid unwanted outcomes and to give you time to implement corrective action when necessary.

6.6 Determine The Costs And Benefits Of The Delivery Methods

6.1 Understand the context of alternative service delivery
6.2 Investigate the range of delivery methods
6.3 Identify barriers to changing delivery methods
6.4 Identify suitable delivery methods
6.5 Assess the risks with the delivery methods
6.6 Determine the costs and benefits of the delivery methods

Some non-recurring costs may be more significant for certain ASD methods than for others. For example, purchasing the management of a municipal service or program but continuing to use municipal employees and resources may involve fewer labour adjustment costs than hiring another service provider to perform municipal services with its own employees.

After creating a short list of the delivery methods that are both feasible and suitable, the next step is to choose the two or three most promising methods and assess them. In the process, you can use the cost-benefit analysis tool described in Chapter 4. As you did when assessing current performance and considering internal improvements, you need to quantify the risks you have identified, incorporate them into the cost-benefit analysis and assess them against the performance outcomes council decided on (see Chapter 3).

Although the cost-benefit analysis provides critical information to help you choose the most appropriate delivery method, unless council decides to stay with the current method and forgo implementing another method, the cost-benefit picture itself will be just a forecast. You cannot create a true picture until you actually get responses from potential providers in the tendering process. Once you have bids or proposals, it may be necessary to perform a more refined form of cost-benefit analysis.

Non-Recurring Costs

Chapter 4 identifies some of the costs that you need to consider in conducting a cost-benefit analysis for the current delivery method: capital costs, operating costs and indirect costs. With any significant service delivery change, you will also face non-recurring costs (see Chapter 5, Section 5.7). You should also be aware of other potential costs, such as job security provisions in collective agreements that may affect contracting out. As well, you'll want to be aware of a significant non-recurring cost in the ASD context – successor rights.

Successor rights are collective bargaining rights retained by a union and the employees it represents following the sale or transfer of a business or activity. A successor employer may be required to assume responsibility for some or all of the predecessor employer's rights, privileges and duties related to employees under a collective agreement. Potential providers may be reluctant to assume these obligations for the remaining duration of the agreement without some way of offsetting the risks or costs of not being able to negotiate new labour relations arrangements.[40]

Given the magnitude of the human resource impacts associated with changing delivery methods, consider developing a comprehensive human resources plan. The plan should:

- identify transition mechanisms for employees who will be offered positions with the new employer;

- contain provisions to ease staff adjustment to changes in delivery (both those employees who leave the municipality and those who remain);
- identify the key stakeholders who should be involved in the transition process.

Other Transition Costs

There are administrative costs to managing the process of changing delivery methods, such as the financial and time costs involved in steering the new method through the internal approval process, as well as the legal and financial analysis costs involved in evaluating bids and awarding a contract. These need to be accounted for in the cost-benefit analysis you use to decide on an alternative service delivery method.

Select A Service Provider

If council decides that the best course is to change delivery methods altogether (as opposed to making improvements to the current method), then the next step is to select a specific provider under the alternative service delivery method chosen.

In selecting a provider, you will use steps probably already used in purchasing. Keep in mind there is ultimately no single method of making contract decisions.[41]

This chapter discusses the key steps in procuring services (as shown in the box below). This is just a brief overview. Additional information on each of these steps is set out as "helpful hints" in *Appendix 9.*

Please note that tendering is a complex legal matter and municipalities are strongly advised to consult their solicitor throughout this process.

7.1 Define The Scope Of The Work

7.1 Define the scope of the work
7.2 Prepare and circulate the solicitation document
7.3 Evaluate bids/proposals
7.4 Prepare and, where relevant, negotiate the contract

A starting point in selecting a service provider is to translate your previous work in defining what council wants from the service and how it can be improved into a "scope of work" statement.

As council begins defining the scope of the work, think through the details of how you intend to implement the service or program under the new delivery method, since implementation will affect how you define the scope of the work.[42] Your goal is to ensure that the scope of the work is well articulated, straightforward and designed to ensure a realistic, acceptable level of service.[43]

7.2 Prepare And Circulate The Solicitation Document

7.1 Define the scope of the work
7.2 Prepare and circulate the solicitation document
7.3 Evaluate bids/proposals
7.4 Prepare and, where relevant, negotiate the contract

There are four key steps here:

- develop reasonable, fair and effective evaluation criteria;

- seek responsive and responsible bids;
- select a solicitation method;
- circulate the solicitation document.

7.2.1 Develop Reasonable, Fair And Effective Evaluation Criteria

Previous chapters described some evaluation criteria to use in selecting a provider. Once council has gone through a process of determining your preferred outcomes and performance levels, these can be translated into your criteria. You have also thought through the costs, benefits and risks (tangible and intangible) of various alternatives. These, too, will be incorporated into your criteria, helping you to define what would constitute a "best value" bid or proposal.

Take great care in identifying and selecting the evaluation criteria for judging responses by prospective providers. Litigation in procurement arises when municipalities are unclear about criteria or change the evaluation criteria part way through the process.

Also, ensure your evaluation criteria are written in a clear and precise way. Consider the appropriate weight to assign each criterion. The results obtained through the bid process should allow for meaningful comparison of a bidder against its competitors and against some overall standard of acceptability.

In developing criteria, consider the bidder's ability and financial resources to provide the service or program within the time specified. A financially stable provider can avoid future default in delivery (this is particularly important for contracts with an extended term or that require a substantial financial outlay).

While the service results the municipality expects must be explained in sufficient detail to promote understanding and compliance by prospective providers, experience shows that the best results are often achieved when providers are given some latitude in determining how to satisfy the criteria.

Consider bidder experience and reputation. Attributes such as integrity, reputation, judgment, experience, efficiency and previous performance are important. Also consider evaluating not only the corporate experience but also the experience of the bidder's management and staff. Although a prospective provider may have only a few years' experience in a service or program area, key employees may have extensive experience.

Identify the results on which prospective providers will be evaluated, such as:

- cost (an indication of competitiveness);
- specification or evaluation criteria (level of compliance);
- tender or contractual issues;
- design;
- after-sales service;
- delivery dates;
- administrative or management systems;
- industrial relations;
- quality management;
- experience/qualifications/referee reports or past performance;
- personnel;
- facilities/equipment.

7.2.2 Seek Responsive And Responsible Bids

In addition to the above, your evaluation criteria should focus on two broad issues:

- A responsive bid – the prospective provider promises to do what you have requested in the solicitation document. You may decide this kind of bid is acceptable in all the circumstances.

- A responsible bid – the prospective provider demonstrates (generally, in the opinion of the person who has asked for work to be done) through various information sources that it can and will perform as promised.

7.2.3 Select A Solicitation Method

Before you prepare the solicitation document, decide on the procurement method that will be most suitable for selecting a provider. Although the terminology, use and legal implications of these terms vary, two common types are:

- a request for proposal (RFP);
- a request for tender (RFT).

The former is a more common approach for contracts for services (as opposed to contracts for goods). Additional tools you may wish to consider to make your overall process more efficient include:

- **A request for pre-qualification.** This process is used to pre-qualify providers for subsequent participation in an invitational RFP. Bidder responses are evaluated against selection criteria set out in the solicitation document and a short list of pre-qualified bidders is created.
- **A request for expressions of interest.** This is a general market research tool used to determine the interest of prospective providers in a proposed project.
- **A request for information.** This provides prospective providers with a general or preliminary description of a problem or need and asks them to provide information or advice on how to define it more precisely, or requests their assistance in identifying alternative solutions. It is not generally intended to result in the awarding of a contract and is generally not used to pre-qualify or screen prospective providers.

Seek out procurement expertise to determine general terms and conditions, instructions to bidders, exhibits and attachments – a key part of preparing the solicitation document.

7.2.4 Circulate The Solicitation Document

Issues to consider about circulating the solicitation document include:

- **Advertising.** Once the solicitation document has been assembled, circulate it to the vendor community (unless you have made the decision up front to work with one specific provider through sole sourcing). When seeking prospective providers, advertise the solicitation document in accordance with the municipality's purchasing policy. The scope and scale of advertising, as well as the chosen medium, should ensure an appropriate level of coverage and competition.[44]
- **Addenda.** An addendum may be issued for any of a number of reasons: to respond to information obtained at the pre-bid conference, to address questions raised by potential bidders, to remedy unclear language, or to correct significant typographical errors discovered after publication of the solicitation document.
- **Pre-bid conference.** The pre-bid conference typically occurs between publication of the bid advertisement

and the bid opening. The conference may be helpful for contracts that require the bidder to see the site where the service or program will be delivered (for example, in contracts for mowing or landscaping).

For some practical considerations to help you design a framework for preparing and circulating the solicitation document, see *Appendix 9*, Part B.

7.3 Evaluate Bids/Proposals

7.1 Define the scope of the work
7.2 Prepare and circulate the solicitation document
7.3 Evaluate bids/proposals
7.4 Prepare and, where relevant, negotiate the contract

Once proposals have been opened, you can begin the process of evaluating bidder responses, selecting finalists and making recommendations for awarding the contract.

The keys to effectively evaluating bids are the criteria and weighting system that you determined earlier, built on your earlier work in determining performance outcomes and target service levels and identifying costs/benefits/risks. For practical considerations to help you evaluate the bids, see *Appendix 10*, Part C.

After conducting a fair and unbiased evaluation and identifying the winning bid, you can award the contract.

7.4 Prepare And, Where Relevant, Negotiate The Contract

7.1 Define the scope of the work
7.2 Prepare and circulate the solicitation document
7.3 Evaluate bids/proposals
7.4 Prepare and, where relevant, negotiate the contract

Once you have selected the winning bid, the next step is to formalize the municipality's expectations and those of the winning bidder in a signed, written contract. Negotiations will likely be involved.

In practice, a proposed contract, which reflects and incorporates the terms of the solicitation documents, is often drawn up *before* the bidding process has started. For any given procurement, a proposed contract and solicitation documents that are consistent in their detail with the provisions of the proposed contract can help avoid extensive and open ended negotiations.

Although any contract or proposed contract should be reviewed at an early stage and approved (including any changes) by the municipal solicitor, legal advice is also especially important before and during contract negotiations. Information provided to bidders or used to evaluate bids, particularly tendering specifications or standards, can decrease or increase the contract costs or financial exposure.

To illustrate, a municipality might be tempted to change a requirement late in the process. It might also in so doing favour a particular bidder. For example, close to the time for the winning bid decision, only one bidder is made aware of a change of a delivery date requirement - to a later delivery date. Such actions could significantly increase or compound the risk of contractual legal liability for the municipality. Legal advice can assist in best determining what items at a given stage of the contract process may be properly negotiated or are best left off the table, or information that may be or should not be included as a contract term.

The date of notification of bidders of a bid decision is a key point to keep in mind. In practice, notification may start the timeline for completing negotiations with the winning bidder to finalize the contract. If a contract cannot be finalized within the established timeframe, consider possible options, which may include breaking off discussions and entering into negotiations with another bidder or cancelling the competition.

Attention to detail is extremely important during the preparation of the contract. Spelling mistakes or punctuation errors may alter the meaning of the text, and errors uncovered after signing can be expensive and difficult (or impossible) to correct. Your contract manager should work closely at all stages with your legal adviser to ensure that the language is correct, the terms and conditions of performance are clearly stated and the document is in the appropriate legal form.

Contracts often address some or all of the following:[45]

- compensation formula;
- terms of the agreement;
- buy-back options;
- termination provisions;
- technical specifications;
- qualifications;
- training;
- ongoing communication;
- dispute resolution;
- capital versus operational or maintenance expenditures;
- assignment;
- security;
- insurance;
- owner's rights to inspect, audit and receive reports.

For practical considerations to help you prepare the contract, see *Appendix 9*, Part D.

Chapter Eight

Implement, Monitor, Evaluate And Report

This chapter explores some issues to consider when implementing a service delivery change. This is a challenging undertaking, involving some risk which, if not handled appropriately, may result in disruptions in service, unacceptably low service levels or increased costs and may reduce the credibility of your procurement and service delivery processes.

This chapter also explains what is involved in monitoring, evaluating and reporting on the service delivery change.

(Although many components of this chapter are relevant for any significant changes in your delivery process, the bulk of this discussion has bearing only when the municipality has decided to maintain some level of formal accountability with respect to ongoing delivery. If the municipality chooses to discontinue its formal role in delivery through privatization, it will generally also discontinue monitoring and evaluating delivery after the transition. However, that does not mean that the municipality cannot lend informal support to the new delivery method, for example, as funder, adviser, facilitator, manager or regulator.)

8.1 Implement

8.1.1 Ensuring Performance

Citizens are increasingly demanding that municipal services and programs be more responsive to their needs. If you contract with outside parties for delivery, you can ensure high performance through contractual provisions.

Managing contracts ("service management") is critical. The previous chapter discussed early steps in the process, including determining the scope and terms of the procurement and awarding the contract. The final step is managing the contract performance. This consists of:

- assessing the performance relative to quality standards for the contract;
- ensuring substantial performance;
- paying the provider;
- evaluating contract results (evaluating the work, evaluating the provider and determining follow-up work).

As the focus of the guide is not on service management, a significant topic in itself, we've included references where you can find guidance in *Appendix 10*.

Whether the municipality retains responsibility for delivery or delivery is undertaken by another provider, increasingly an accountability tool generally known as a *service level agreement* is being used to define the deliverables for the program:

- level and quality of service;
- cost;
- timelines;
- remedies for non-performance.

For more information on managing contracts arising from "in-house" bids, see *Appendix 8.*

8.1.2 Managing The Implementation

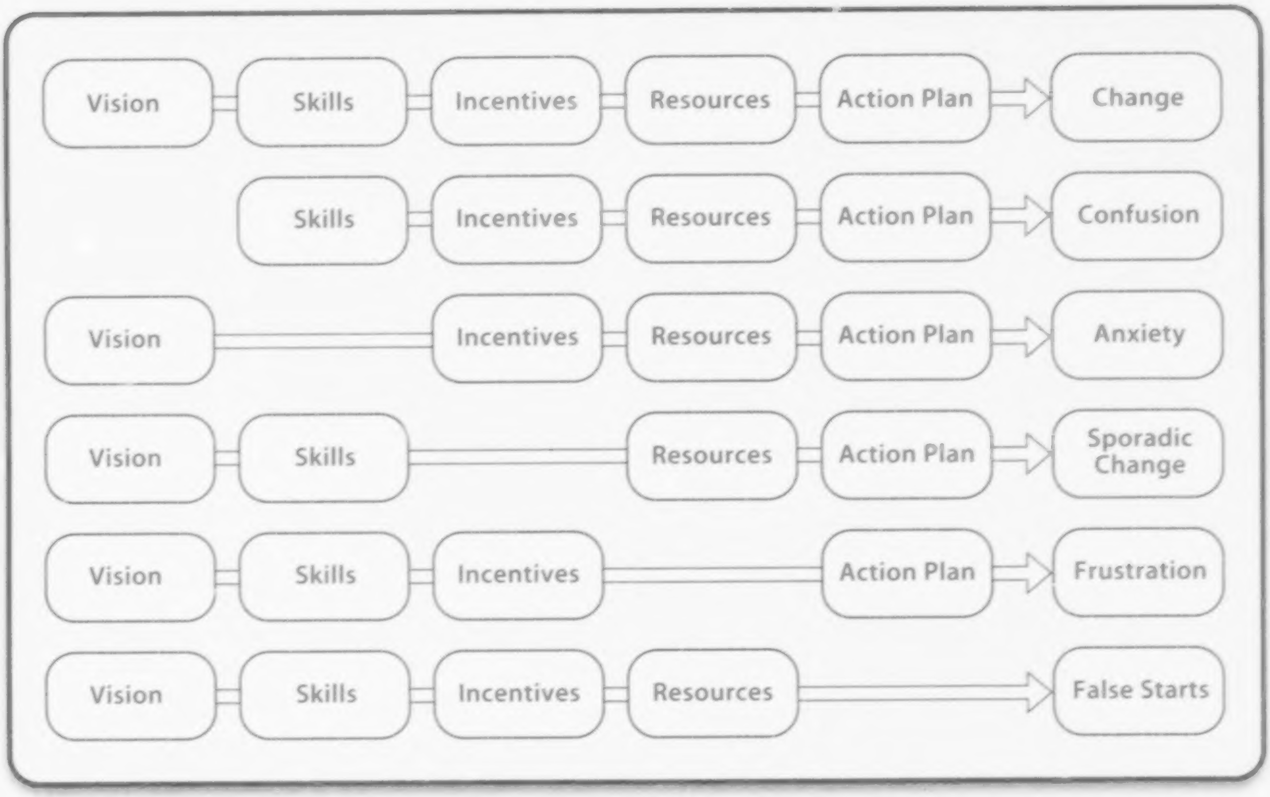
The following figure shows the key ingredients necessary for a successful implementation effort (and the consequences of leaving out any one of the ingredients!).

Resourcing

A new method of providing a service or program will not succeed unless there is an adequate number of staff equipped with the right skills and expertise to function in the changed environment.

Resourcing the change effort itself is also critical. Specifically, commitment from

Influencing Change (When Implementation Goes Astray)



This graphic is useful both for planning and for diagnosing problems that occur during the implementation phase.[46]

senior management to seeing the transition process through is important to:

- overcome some of the obstacles that may present themselves when changing delivery methods;
- enhance the credibility of the transition process for staff;
- boost staff confidence and maintain commitment to the process.

Action Plan

Developing an action plan includes:[47]

- developing the work breakdown structure;
- allocating resources to each task;
- estimating the duration of each task;
- identifying dependencies;
- identifying milestone dates;
- allocating costs to the project plan;
- reviewing and modifying the critical path;
- putting project controls in place;
- presenting the final report to council;
- completing final recommendations or conclusions;
- ensuring the transition is complete;
- completing the close-out evaluation of the project;
- completing the performance reviews of the project teams;
- archiving project documentation;
- disbanding the project team;
- celebrating.

Successful action plans, in turn, require effective leadership and strong communications:

Leadership

As a general rule, leaders who successfully manage an implementation follow a four-step intervention process:[48]

- focus on the process (they build staff understanding of the need for change);
- grieve (they allow people to mourn the passing of the old way of doing things);
- regain control (they build and encourage staff optimism for the new way of doing things);
- rebuild (they create the new work systems).

Leadership is also about creating an environment and processes that foster innovation.

An innovative work environment requires management leadership that:

- communicates expectations for innovation;
- provides resources to support innovation;
- establishes an expedited approval process for innovative ideas;
- supports staff who take risks in the pursuit of innovation and service improvement.

A decision-making process that supports innovation provides guidelines on:

- when to proceed with an experiment;
- how to estimate the costs and benefits of an experiment;
- lines of approval for an experiment;
- when to expand a successful experiment to other areas of the organization;
- when to abandon an experiment that is not producing the desired results;
- how to transfer lessons from a successful experiment – or a failed experiment – to future experiments.

Staff should not be punished for failed experiments but should be encouraged to learn from the experience.

Communicating The Change In Service Delivery

A key source of staff resistance to changes in service delivery stems from the lack of awareness of critical information about the change. You need to *communicate to staff*:

- your objectives and reasons for making the change;
- specifically, what will be done;
- who will be affected and involved;
- when and how the change will happen.

Consider using different communication approaches depending on where your municipality is in the change management process. Your approach will vary depending on whether you intend to share information, build understanding, identify the implications, gain commitment or alter behaviour.

Generally, as you move from simply conveying information toward gaining commitment, your communications strategy will become more of a two-way, ongoing dialogue between management and staff.

The transition may be facilitated by instituting feedback mechanisms to encourage dialogue and problem solving with staff. As a general rule, it is easier for staff to gain a sense of ownership with a new way of doing things if they are involved in the decision-making process guiding the change. For example, staff can:

- provide data on the status quo (through surveys or focus groups);
- provide feedback on progress or proposed options;
- serve on working groups on specific issues.

However, appearing to involve staff and then ignoring their input can be counterproductive and may reduce staff ownership of the transition process. To minimize this risk, ask only for information that you can use, manage expectations on how it will be used and acknowledge when it has been used.[49]

To find more information on implementation, see *Appendix 10.*

8.2 Monitor, Evaluate And Adjust The New Method

8.2.1 Monitoring

You've gone to a lot of work to improve the service. Council will want to know that the municipality's goals are being achieved. Underperforming providers (whether internal or external) may mean service interruptions or the provision of lower-than-acceptable levels of service. Where the municipality retains accountability for meeting acceptable delivery standards, this means that "the buck stops" with council for acceptable levels of service.

Think about implementing policies that reduce these risks, including:

- randomly sampling the service or product to ensure compliance with the set performance evaluation standards;

- monitoring performance against performance criteria (whether performance standards or the criteria in the contract);
- intervening early if performance is unsatisfactory;
- ensuring that employees who are required to manage contracts have sufficient experience, training and support;
- in the case of alternative service delivery, maintaining sufficient expertise within the municipality should the need arise to resume direct delivery.

To minimize the risk of repeated poor performance, document evidence of unsatisfactory performance. To reduce the risk that underperforming providers are awarded new contracts in the future, consider, with your legal advisor, possible use of this documentation when screening current and past providers for future contracts.

When resolving disputes between the municipality and the service provider, you need to avoid the perception that decisions made under your resolution mechanism are arbitrary. Keep in mind any dispute resolution requirements (such as dispute resolution terms in contracts). You should therefore create a written policy identifying how disputes over performance will be resolved. For additional information on these and other service management issues, see *Appendix 10*.

8.2.2 Evaluating And Adjusting

Once you have had sufficient experience with the new delivery method to gauge its performance, re-use the four evaluation tools discussed in Chapter 4 to evaluate performance. This will produce rich information to enable you to make the adjustments necessary to continuously improve service delivery.

While your purpose in undertaking the review is to learn how best to deliver services and programs, the review process itself will help you understand, for example, how well the municipality works through challenges or how well staff and council relate to one another. Use the information gained through the process to help the municipality recognize and evaluate its strengths, weaknesses and overall performance with respect to all municipal functions and processes, not just service delivery.

8.3 Report On Improvements And Barriers To Improvement

As public bodies that spend citizens' money, municipalities must clearly communicate information on how that money is used. Section 300 of the Municipal Act, 2001 requires municipalities to provide annual public notice of improvements in the effectiveness and efficiency of their service delivery and barriers to other improvements.

By providing a framework for improving services and programs and by enhancing your understanding of the obstacles to improvement, the review process described in this guide can be useful in developing the municipality's report to its citizens.[50]

Endnotes

1 For more information on these organizational management matters see:

- Kitchen, Harry. (1993) Efficient delivery of local government services. Queen's University: School of Policy Studies, Kingston.
- Bossidy, Larry and Charan, Ram. (2002) Execution: The Discipline of Getting Things Done. Crown Business, New York.
- McDavid, James C. and Brian Marson. ed. (1991) The Well-Performing Government Organization, an edited collection of papers given at the Conference on the Well-Performing Government Organization. The Institute of Public Administration of Canada, Victoria.

For helpful American-based sources of information on indicators of effective municipal management, see: The Government Performance Project at http://www.maxwell.syr.edu/gpp/grade/2002full.asp. See also Barrett, K. & Greene, R. (2000) Grading the Cities. A Management Report Card. Available on-line at http://www.governing.com/archive/2000/feb/gpintro.txt. For a helpful U. K. based source, see: The Local Government Improvement Program at http://www.idea.gov.uk/lgip/lgip-benchmark.pdf. See also their light-hearted but helpful June 2003 publication, The Man in the Caravan and Other Stories by Charles Leadbeater.

For a broader discussion of other municipal actions (e.g., choices about governance, approaches to land-use planning and labour relations) affecting efficient and effective municipal service delivery, see:

- Fenn, M. "Emerging Trends in Urban Affairs: A Municipal Manager's View." Urban Affairs: Back on the Policy Agenda. McGill-Queen's University Press.
- Toronto Board of Trade. (September 2003) Responsible and Representative: Better Governance for Toronto. Final Report of the City Governance Task Force.
- TD Economics. (April 22, 2002) Special Report: A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future, p.p. 3, 21. Available at www.td.com/economics.
- Trebilcock, Michael. (1994) The Prospects for Reinventing Government, C.D. Howe Institute, Toronto.

2 For an example of a method of scoring and weighting the considerations, see the City of

Ottawa's Criteria to Identify Candidates for Review on p.p. 14-19 of the Transportation, Utilities and Public Works Department's Competitive Service Delivery Review (CSDR) Manual (2003).

3 Some municipalities insert an additional step in front of Stage 2 and apply the public interest "test" in examining a specific service. See, as an example, the City of Kingston (2004). Report to Council: Review of Services. Report No. 04-122.

4 Schmidt, Faye and Strickland, Teresa. (December 1998) Client Satisfaction Surveying: Common Measurement Tool. Citizen-Centred Service Network. Canadian Centre for Management Development. p.p. 9-13.

5 For a helpful illustration of how this step can be built into a service delivery review process, see the City of Kingston's Report No. 04-122 Report to Council: Review of Services.

6 For a further discussion of this approach to innovation, see the discussion of Robert Fritz's work in Peter Senge's article "Creating Desired Futures in a Global Economy" in the Society for Organizational Learning's Reflections (vol. 5, no. 1).

7 For a full discussion of "structural tension," see Robert Fritz. (1999) The Path of Least Resistance for Managers: Designing Organizations to Succeed. USA: Berrett Koehler.

8 For a helpful resource on this tool - program evaluation - see the Canadian Evaluation Society at www.evaluationcanada.ca. For a discussion of program evaluation practices and issues in municipal land-use planning departments in Ontario, see Seasons, Mark. (2002). Evaluation and Municipal Urban Planning: Practice and Prospects, the Canadian Journal of Program Evaluation. Vol. 17 No. 1, p. 43.

9 Town of Oakville's creation of an Interactive CD for Emergency Services Personnel, winner of a 2002 Peter J. Marshall Municipal Innovation Award, is an example of a municipal innovation where this issue drove improved effectiveness.

10 For illuminating illustrations of how a focus on these steps can improve the effectiveness of a municipal program, see the City of Kawartha Lakes' "Interpersonal Development: A Life Skills Program for Ontario Works Clients," winner of a 2003 Peter J. Marshall Municipal Innovation Award and the Region of Halton's "Establishment of a Housing Help Centre," winner of a 2002 Peter J. Marshall Innovation Award. The London Transit Commission's Process Review Management (PRM) framework has been employing these and similar steps to redefine and rebuild public transit, as illustrated in their presentation, "Redefining Delivery of Public Transit."

11 McDavid, Jim. (1998) Linking Program Evaluation and Performance

Measurement: Are There Ways We Can Build and Sustain Performance Measurement Systems? British Columbia: School of Public Administration, University of Victoria.

12 Schacter, Mark. (2002) Not a "Tool Kit." Practitioner's Guide to Measuring the Performance of Public Programs. Ottawa: Institute on Governance. p.p. 11-12. See also Mayne, John. Office of the Auditor General of Canada. (2001) Addressing Attribution Through Contribution Analysis: Using Performance Measures Sensibly. The Canadian Journal of Program Evaluation. Vol. 16 No. 1, p. 1.

13 See, for example, the City of Windsor's "Summer Levy Program" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca.

14 See, for example, the City of Orillia's "Tags-on-bags/Pay-as-you-throw Systems" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca.

15 See, for example, the Town of Caledon "Roads-Winter Control-Cost Accounting" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca.

16 For more information, see "Allocation of General Government" in the Financial Information Return instructions. The instructions are posted at http://oraweb.mah.gov.on.ca/fir/Welcome.htm. Note that this methodology concerns only the allocation of program support associated with general government and not the indirect cost of other functions (such as fire protection or police).

17 National Archives of Australia. (2001) DIRKS - A Strategic Approach to Managing Business Information, Appendix 10 - Record Keeping Cost Benefit Analysis. p. 4.

18 Ministry of Municipal Affairs and Housing. (2001) Public-Private Partnerships: 14 Steps to Successful P3's. Toronto. p.p. 2-9.

19 Industry Canada (2003) The Public Sector Comparator: a Canadian Best Practices Guide. p.12.

20 Ministry of Municipal Affairs and Housing. (2001) Public-Private Partnerships: 14 Steps to Successful P3's. Toronto. p.p. 2-9.

21 As adapted from Fritz, Robert. (1999) The Path of Least Resistance for Managers: Designing Organizations to Succeed. USA: Berrett Koehler.

22 New South Wales Department of Public Works and Services Cataloguing-in-Publication data. (2001) Demand Management Guideline. p. 10.

23 For another example of this tool, see the discussion of Mississauga's "On the Road Utilization of Buses" at p. 104 of the Canadian Urban Institute 2003 Study, Best Practices in Municipal Delivery.

24 For an example of this tool, see the discussion of Mississauga Library's "Value Improvement through Employee Leadership Initiative" at p. 103 of the Canadian Urban Institute 2003 Study, Best Practices in Municipal Service Delivery.

25 See, for example, City of Toronto's "Water and Wastewater-Integrated Business and Information System" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca.

26 See, for example, the City of North Bay's "Roads-Winter Control-Winter patrol responsibilities integrated with other activities" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca

27 Ministry of Finance, Fiscal and Financial Policy Division. (2003) The Case for Improved Supply Chain Management in Ontario's Broader Public Sector. Toronto.

28 For a discussion of an award-winning employee wellness program, see the Municipal Monitor, "Town of Richmond Hill - Employee Wellness Program" (March/April 2004). p.18.

29 See, for example, the County of Middlesex's "Roads-Winter Control-Two-Shift Operation" at Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca.

30 See for example York Region's "Roads-Winter Control-Contract Terms" which facilitate timely call-out decisions by front line patrollers, described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca

31 For an example of this tool, see the discussion of the Region of Peel's asset management system at p. 120 of the Canadian Urban Institute 2003 Study, Best Practices in Municipal Service Delivery.

32 For an example of the importance of cross training in the re-engineering of municipal services, see the discussion of Calgary's re-engineering of the development approval process at p. 97 of the Canadian Urban Institute 2003 Study, Best Practices in Municipal Service Delivery. See also City of Dryden and Region of Peel's "Water and Wastewater-Cross-training: A Multi-Skilled/Multi-Licensed Work Force" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca.

33 City of Winnipeg. (1999) Policy and Framework for Alternative Service Delivery in City of Winnipeg.

34 As adapted from a presentation by Dr. A. Scott Carson, given at the 2003 Institute of Public Administration of Canada (IPAC) Conference.

35 Carson. (2003) Institute of Public Administrators of Canada (IPAC) Conference.

36 A variation on this method of service delivery - known as Special Operating Agencies (S.O.A.s) - is widely used in Winnipeg, see City of Winnipeg.

(1999) Policy and Framework for Alternative Service Delivery in City of Winnipeg. See also Wilkins, John K. (2003) Conceptual and Practical Considerations in Alternative Service Delivery. Symposium on Creating Self-Confident Government: Reflections and New Frontiers.

37 City of Winnipeg. (January 1999) "Appendix III" Alternative Delivery Options Business Planning Workbook. p. 4. For an overview of the City of Ottawa's public-private partnership approach, see Public-Private Partnerships: Report to Corporate Services and Economic Development Committee and Council, June 7, 2002.

38 See, for example, City of London's "Waste management-Waste diversion-Community Partnership-Building" described by the Ontario Centre for Municipal Best Practices (OCMBP) at www.ocmbp.ca

39 For a helpful discussion of this issue, see O.E.C.D. (1997) Contracting Out Government Services: Best Practices Guidelines and Case Studies, Public Management Occasional Papers No. 20. For an example of how this risk can be overestimated, see the discussion of the City of Winnipeg's 1999 decision on contracting waste collection services in: City of Winnipeg. (2004) Provision of Solid Waste Collection Services. Report to the Alternative Service Delivery Committee. March 16, 2004, p. 6013. For a number of Canadian and international municipal case studies illustrating the necessity of assessing and appropriately allocating risks based on accurate information and good data, see Brubaker, Elizabeth. (2003) Revisiting Water and Wastewater Utility Privatization. Prepared for the Government of Ontario Panel on the Role of Government.

40 For more information on successor rights, see Section 68 of the Labour Relations Act, 1995.

41 Most of the discussion in this chapter has been sourced from a leading text in the area of municipal procurement of services - Harney, Donald F. (1992) Service Contracting: A Local Government Guide, International City/County Management Association - and provides a high-level description of the procurement process. The Ministry of Municipal Affairs and Housing has also developed a document that outlines the steps to develop bylaws or resolutions for procuring goods and services. A Guide to Developing Procurement Bylaws - Meeting the Requirements of the Municipal Act, 2001 is posted on the ministry's website at www.mah.gov.on.ca.

42 For a discussion of some of these issues, including linked work activities, shared resources, economics of scale, competitiveness and asset ownership, see the City of Ottawa's Competitive Service Delivery Review (CSDR) Manual (2003).

43 Harney, Service Contracting: A Local Government Guide, p. 27.

44 Certain interprovincial trade agreements have terms referencing scope, method, duration and other aspects of procurement. For more information, contact the Procurement Policy and IT Procurement Branch of the Management Board Secretariat or visit www.ppitpb.gov.on.ca.

45 Welsh Local Government Procurement Unit. (2003) Basic Guide to Contract and Procurement Law. P. 5-15. Available on-line at http://www.wlga.gov.uk/Procurement/prog-guidance-docs/guide-to-proc-and-proc-law.pdf.

46 From the workshop "Developing a Coaching and Mentoring System by Linkage Corporation." Available electronically at www.linkageinc.com. For more general guidance on implementation issues and strategies, see Bossidy, Larry and Charan, Ram. (2002) Execution: The Discipline of Getting Things Done. Crown Business, New York.

47 From the Business Improvement Architects' "BIA Project Management Process." Available on-line at www.bia.ca.

48 Beaudan, Eric. "Leading in Turbulent Times." (June 2002). Ivey Business Journal.

49 Treasury Board of Canada Secretariat. FIS Change Management Framework - Implementation of FIS for the Government of Canada.

50 For an example of a report to citizens on the results of service reviews, see: City of Regina. (2004) Report To Council on Innovations and Efficiencies Achieved In 2003, April 26, 2004. Report No. CM04-10.

Appendix 1: Glossary Of Terms

The following definitions reflect the way these terms are used in A Guide to Service Delivery Review for Municipal Managers and may have alternative meanings in other contexts.

Alternative Service Delivery

The process of public-sector restructuring to improve the delivery of services to citizens by sharing municipal functions with individuals, community groups, the private sector and/or other government agencies. By using ASD, the municipality concentrates on activities that it is best equipped to provide while allowing other sectors to carry out those activities that they do best.

Business Plan

A document that summarizes the operational and financial objectives of a business and contains detailed plans and budgets showing how the objectives are to be realized.

Capital Cost

In a general sense, expenditure that is for any lasting assets, such as permanent or semi-permanent facilities or equipment, buildings or machinery. As with related concepts such as operating costs, this term may have differing technical or special meaning in particular contexts such as accounting.

Common Measurement Tool

A citizen survey tool developed by the Canadian Centre for Management Development to ensure consistency in client satisfaction measurement among organizations. The common measurement tool (CMT) has been widely tested over several years and has won Canadian and international awards as an evaluation tool. To ensure that all aspects of client service are considered, the CMT asks questions related to five areas: client expectations, perceptions of the service experience, satisfaction levels, levels of importance, and priorities for service improvements. For more details, see the website for the Institute for Citizen-Centred Service: www.iccs-isac.org.

Cost-Benefit Analysis

A quantitative assessment that relates benefits from a project or program to the costs necessary to bring about those benefits.

Core Services Review

A strategic planning exercise to help a municipality determine what businesses it should be in. A core services review differs from a service delivery review, which helps the municipality improve the effectiveness and efficiency of a particular service or program.

Demand Management

A process whereby the supplier of a service attempts to influence demand for the service or program through, for example, consumer education, pricing, technological innovation, management approaches, regulations or operational procedures.

Direct Costs

Expenditures that can be specifically allocated to the provision of a particular service.

Direct Delivery

A service delivery method where the municipality has primary responsibility for producing, funding and providing a service or program, normally using municipal employees. Most municipal services and programs in Ontario are currently provided in this way.

Discounted Cash Flow

A method of evaluating return on a proposed investment that takes into consideration the time value of money - that is, the fact that a dollar received in the future is worth less than one received today. See also Net Present Value.

Economy

The relative cost of the inputs to a service or program compared to a given standard such as market cost.

Effectiveness

The relationship between the output of a service or program and its outcomes. The more these outputs produce the desired outcomes, the more effective the service is.

Efficiency

The ratio of outputs to inputs, or the amount of output per unit of input. Unit A is more efficient than Unit B either (1) if it uses fewer resources than Unit B but has the same output, or (2) if it uses the same resources as Unit B and has more output than Unit B.

Expenditure Management

A management system for the ongoing review of service and program spending to reduce expenditures and identify opportunities for using resources responsibly, efficiently and effectively.

Fixed Costs

Costs that are incurred to build a capital asset or provide a service that are independent of the level of output of that asset or service.

Indirect Cost

Costs incurred for the benefit of the organization as a whole and not readily traceable to a specific department, consequently beyond the control of a department head.

In-House Bid

A process that allows internal staff to compete with external entities for procurement opportunities. Section 271 of the Municipal Act, 2001 requires municipalities to have policies about the circumstances in which in-house bids will be encouraged as part of the tendering process.

Input

The resources that the service or program uses to produce outputs (for example, dollars spent, staff employed or equipment used).

Internal Improvement

A process whereby the municipality continues to deliver a service or program directly in an improved way by increasing the number of benefits, increasing the number of outputs or decreasing the number of inputs.

Labour Adjustment Cost

One-time additional costs to the municipality incurred when employees are displaced because of changes in the way a service or program is delivered. These costs can include severance entitlements, job security provisions and pension entitlements.

Licensing

The sale of a municipality's legal interest in a service or program to a person or business. For example, if the municipality has developed leading-edge geographic information system (GIS) technology, it could license the technology to private firms.

Life-Cycle Cost

The sum of present values of investment costs, capital costs, installation costs, energy costs, operating costs, maintenance costs and disposal costs over the lifetime of a product or service. The object of life-cycle cost analysis is to choose the most cost-effective approach from a series of alternatives to achieve the lowest long-term cost of ownership.

Municipal Business Corporation

Section 203 of the Municipal Act, 2001 permits municipalities to form municipal business corporations to provide municipal services and new facilities. The corporations can be either wholly owned by the municipality or have varying proportions of private and non-profit ownership (up to 49% external ownership).

Municipal Performance Measurement Program

The Municipal Performance Measurement Program (MPMP) was introduced by the Ministry of Municipal Affairs and Housing for the 2000 reporting year. This program requires municipalities to collect specific data on core service areas, submit their data to the province and report to their constituents on the results. MPMP's objectives are:

- to provide a tool to assess how well municipal services are delivered to improve performance by measuring the efficiency and effectiveness of local services;
- to strengthen local accountability to taxpayers and promote greater understanding of municipal responsibilities by the taxpayer;
- to provide a systematic resource that allows municipalities to share information on performance and learn from each other.

For more information on MPMP, see the ministry's website: www.mah.gov.on.ca

Net Present Value

Net present value analysis makes it possible to compare options when cash inflows and outflows are distributed unequally over time. Present value is calculated by multiplying costs by a predetermined factor, referred to as discounting, based on an established discount rate and time period. Net present value is based on the principle that a dollar received in the future is worth less than one received today. See also Discounted Cash Flow.

Non-recurring Cost

A cost that occurs only once in a project, also known as "one-time" costs. Although they appear only once, non-recurring costs can be the major costs for a small project.

Operating Cost

Generally, a cost incurred by the service or program for an item that is used up within a fiscal year; often these are costs for items such as utilities, salaries, office supplies, etc. As with related concepts such as capital costs, this term may have differing technical meaning in particular contexts such as accounting.

Organizational Learning

Learning that occurs in an organization through shared insights, knowledge, mental models and team learning.

Outcome

The impact that the output of a program or service has on citizens (that is, what the service or program makes happen rather than what it does). Identifying outcomes means asking, "What do we want this service or program to accomplish?"

Output

The tangible product produced by a service or program, such as tonnes of garbage collected or number of fires extinguished.

Partnership

With public-private or public-public partnerships, the municipality works in some way with another party to provide municipal services and programs. These partnerships are not necessarily characterized by a procurement process or by a particular kind of legal agreement. Often there would be a long-term business relationship between the parties. Each contributes resources and shares risks and rewards. The partnership may be with an external public agency, a private company, or a volunteer organization, among others.

A **public-public partnership**, generally speaking, is a relationship or intergovernmental agreement in which two or more jurisdictions, at any of the three levels of government, arrange to deliver public services or programs. The partnership can be achieved through shared services - a joint service agreement in which two or more jurisdictions act together to plan, finance and deliver a municipal service or program. For example, to achieve economies of scale or to capitalize on complementary expertise, a municipality and a school board might jointly develop and build a multi-use facility such as a combined school and public library.

A **public-private partnership**, generally speaking, is an agreement or relationship between the municipality and a private-sector provider to accomplish defined objectives. These partnerships (sometimes called "P3s") are often used to design, finance, build and operate public facilities or services, with both parties pooling their resources and sharing profits or losses from the enterprise. Such arrangements usually differ from conventional service contracting in that the private partner usually makes a significant cash-at-risk or equity investment while the municipality gains access to outside financing or expertise.

Performance Measures

A way of costing and tracking the efficiency, effectiveness and community impact of a particular program or service over a period of time.

- **Economy measures** look at the cost of acquiring the inputs for a service or program compared to a given standard such as market cost.
- **Efficiency measures** look at whether the municipality is getting the maximum output for those inputs (for example, the number of young people reached by an employment program for a given cost).
- **Effectiveness measures** look at whether the outputs produce the desired outcomes (for example, does the service or program result in more young people finding work than would otherwise be the case?).

Privatization

Although there is no standard definition, one view of privatization involves the sale of assets or the transfer of capital to a private-sector company. Privatization may occur in circumstances in which there is no continuing public policy reason for retaining the service or program within the municipality or in which the public interest may be protected through regulation. One significant difference between privatization and external purchase of services is that with privatization, accountability for delivery shifts to a greater or lesser degree from the municipality to the private-sector provider, whereas with the external purchase of services, the municipality continues to be accountable for the function.

Program Logic Model

A systematic, visual way to present a service or program with its underlying assumptions that helps define the relationship between the inputs, outputs and outcomes by linking them with arrows. The logic model makes it easier to think through what the service or program is trying to achieve, the steps taken to get there and assumptions on how things work.

Purchase of Services

The *external purchase of services* ("contracting out") occurs when the municipality hires another service provider either:

- to deliver municipal services/programs with private-sector employees (an "operations and maintenance" contract); or
- to manage them using municipal employees and resources (a "management services" contract).

The *internal purchase of services* ("contracting in" or "in-housing bidding") allows internal staff to compete with external parties for providing the service or program. Section 271 of the Municipal Act, 2001 requires municipalities to have policies about the circumstances in which "in-house" bids will be encouraged as part of the tendering process.

Request for Expressions of Interest

A general market research tool to determine vendor interest in a proposed procurement. It is used before the municipality issues a call for bids or proposals and is not designed to result in the award of a contract.

Request for Information

A method of providing prospective vendors with a general or preliminary description of a problem or need that asks them to provide information or advice about how to better define the problem or need, or requests their assistance in identifying alternative solutions. It is not a mechanism to pre-qualify or screen vendors and is not designed to result in the awarding of a contract.

Request for Pre-Qualification

A procurement process used to pre-qualify vendors for subsequent participation in a Request for Proposal. Responses from proponents are evaluated against selection criteria set out in the solicitation and a short list of pre-qualified proponents is created.

Request for Proposal

A competitive procurement process for obtaining unique proposals designed to achieve broad outcomes related to a complex problem or need for which there is no single solution.

Request for Tender

A competitive procurement process for obtaining competitive bids on precisely defined requirements for which a single solution exists.

Responsible Bid

A bid in which the prospective provider demonstrates (generally in the opinion of the person who has asked for the work to be done) through various information sources that it can and will perform as promised.

Responsive Bid

A bid in which the prospective provider has promised to do exactly what the municipality has requested in the solicitation document.

Risk Management

A systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, monitoring and communicating risk issues.

Service Delivery Review

An evaluation process in which a specific municipal service is systematically reviewed to determine the most appropriate way to provide it.

Appendix 2: Municipal Act, 2001 Provisions

Before considering a change in the method of service delivery, council and senior staff need to know the general legislative framework for delivering services. Note that Ontario municipalities operate within the context of a host of other legislation that is general to all employers (such as the Employment Standards Act and the Labour Relations Act) as well as legislation that is specific to certain services (for example, the Fire Prevention and Protection Act or the Public Libraries Act).

Three key elements of the Municipal Act, 2001 that affect the context for service delivery review are:

1. New authorizing provisions about service delivery and limits and constraints on the related powers (discussed below);
2. New performance and accountability provisions (discussed in Appendix 3);
3. New provisions about the role of council in service delivery (discussed in Chapter 1).

(See Ministry of Municipal Affairs and Housing, Municipal Act e-Guide.)

Natural Person Powers

Section 8 of the Municipal Act, 2001 confers on municipalities the rights and powers of a natural person for the purposes of exercising their authority under this and other statutes. Natural person powers give councils much the same authority and flexibility as individuals and corporations have to manage their organizational and administrative affairs. Generally, these powers enable a municipality, without the need for specific legislative authority, to:

- hire staff;
- enter into agreements;
- purchase land and equipment;
- delegate administrative responsibilities to committees, staff members or other bodies such as boards of management.

This single provision in the Municipal Act, 2001 replaces the numerous specific and prescriptive provisions about administrative matters found in the previous Municipal Act.

Municipal exercise of these broad administrative and organizational powers is subject to two main constraints:

- The natural person powers do not entitle municipalities to deliver services or operate facilities such as correctional facilities for which they lack authority under the Municipal Act, 2001 or any other legislation.

- These powers do not apply to those parts of the Municipal Act, 2001 dealing with finance (Section 17, in particular, sets out limits regarding the application of natural person powers to financial transactions).

Spheres Of Jurisdiction

Section 11 grants municipalities broad authority to deliver services and operate facilities in ten spheres of jurisdiction. The spheres reflect the main focus of the service delivery powers in the previous Municipal Act but are expressed in a general form so as to give councils more flexibility to deal with local circumstances.

For matters falling within the spheres, councils do not have to provide specific legislative provisions as justification for their actions. In most instances, the sphere is the basis for municipal authority. (An additional benefit of the inclusion of these spheres in the Municipal Act, 2001 is it should avoid the need for legislation in many circumstances when a new local issue emerges.)

Below are the spheres of jurisdiction and examples of some of the areas they cover:

1. Highways - parking and traffic on highways
2. Transportation systems other than highways - local traffic, ferries, airports
3. Waste management - waste collection, recycling, composting, disposal
4. Public utilities - water supply and sewage treatment facilities
5. Culture, parks, recreation and heritage - parks, arenas, museums, art galleries
6. Drainage and flood control, except storm sewers - floodways, purchase of wetlands
7. Structures, including signs and fences - fences surrounding swimming pools
8. Parking, except on highways - parking lots, garages
9. Animals - licensing, spaying clinics, restrictions on exotic animals
10. Economic development services - industrial parks, tourism promotion

However, a municipality's exercise of these powers is limited by other parts of the Municipal Act, 2001 and other statutes.

First, about 80 other statutes (such as the Fire Protection and Prevention Act, the Police Services Act and the Ontario Works Act) administered by other ministries also provide authority for important municipal services.

Second, the Municipal Act, 2001 provides for explicit limits on the exercise of powers under the spheres. For example, under six spheres of jurisdiction listed in section 16, municipalities are not entitled to regulate private-sector operations of the type authorized by that sphere.

Lastly, municipal deliberations about using their authority under the spheres of jurisdiction must take into account Part III of the Municipal Act, 2001 titled "Specific Municipal Powers." Sections 24 through 114 supplement, restrict or impose limits or procedural requirements on the spheres.

Governmental Powers

Subsection 9(3) of the Municipal Act, 2001 specifies that municipal spheres of jurisdiction include general powers not available to natural persons. These powers enable councils to pass bylaws regulating and prohibiting activities. They can require people to do things and they can set up a system of permits, licenses and approvals.

In the previous Municipal Act, municipal regulatory powers were explicitly stated and were associated with specific activities. For example, subsection 208 (6) of the previous Municipal Act gave municipalities the explicit authority to regulate waste recycling. In the Municipal Act, 2001, this power is not explicitly stated but is included in the "waste management" sphere of jurisdiction by virtue of section 9.

Powers To Establish Corporations

Section 203 empowers the Lieutenant Governor in Council (Cabinet) to make regulations governing various forms of corporations that could be established and owned by one or more municipalities, including share corporations, with or without other non-municipal shareholders.

The recently passed Municipal Business Corporations regulation gives both large and small municipalities more authority to set up corporations and involve private-sector partners in the financing and undertaking of public projects through business corporations. Corporations are restricted to specific permitted objects, which include operation and maintenance of:

- a public transportation system;
- a residential waste management system;
- economic development promotion services;
- administrative services;
- certain types of capital facilities under section 110 of the Municipal Act, 2001 (this includes facilities that are: used by the council for the general administration of the municipality; related to the provision of transit and transportation systems; for the collection and management of residential waste and garbage; municipal community centres and facilities used for cultural, recreational and tourist purposes and parking);
- the construction and ownership of recreation, tourism and cultural facilities (except libraries); nursing homes and charitable homes; public transportation systems; residential waste management systems; general parking facilities.

The regulation also grants special powers to York Region related to a system or facility of a corporation established for transit.

Municipal Service Boards

Section 195 allows upper- and lower-tier municipalities to establish municipal service boards to control and manage services under the following spheres of jurisdiction:

- public utilities;
- waste management;
- transportation systems other than highways;

- culture, parks, recreation and heritage;
- parking, except on highways.

This offers enhanced flexibility for administration and governance, including joint service provision by two or more municipalities. A municipal service board is an agent of the municipality and the municipality, not the municipal service board, owns the assets related to a municipal service. A municipal service board does not have the power to borrow money. Such a board requires the consent of the municipality to extend services to another municipality or to undertake capital improvements.

User Fees And Charges

Under Part XII of the new Municipal Act, 2001, municipalities have broad authority to impose fees and charges for any activity or service the municipality provides and for the use of municipal property. The municipality determines the level of the fee and who pays the fee.

The legislation prohibits municipalities from imposing income or poll taxes. It also gives the Minister of Municipal Affairs and Housing the authority, by regulation, to restrict services for which user fees under this part may be imposed or the manner in which fees are imposed.

Fees for the use of a waste management system, a sewage system, water consumption, and police and fire protection permits and inspections, among others, are subject to special rules prescribed in the regulation. For example, in some cases these rules include the requirement that municipalities hold at least one public meeting to provide an opportunity for ratepayers to make representations.

Municipalities may not impose or charge fees for certain matters, such as:

- on the Crown alone;
- for court security or transportation of prisoners;
- for processing applications respecting planning matters under the Planning Act (a fee may be charged under the Planning Act).

As well, a board of management established by a municipality for an improvement area may impose fees only on business property owners in the improvement area for which the board was established, as well as on the tenants leasing these properties.

Limits

Another feature of the Municipal Act, 2001 is that it spells out explicit limits, such as:

- Municipal bylaws cannot conflict with federal or provincial statutes.
- Spheres of jurisdiction may be subject to procedural requirements and other limitations existing in other statutes.
- Under six of the spheres, municipalities are prohibited from regulating non-municipal systems.
- Municipalities in two-tier systems are prohibited from regulating activities of the other tier which are authorized under the spheres.
- Neither the spheres nor the natural person powers authorize

municipalities to undertake certain corporate and financial actions such as imposing taxes, fees or charges, incurring debts and making investments - municipal authority for those activities is set out elsewhere in the Municipal Act, 2001.

- Municipalities can exercise their powers only inside their own boundaries, with some exceptions.

Appendix 3: Municipal Performance And Accountability Mechanisms

A number of initiatives are in place, both under the provisions of the Municipal Act, 2001 (i.e., section 300 of the Municipal Act, 2001) as well as a result of the efforts of municipal associations and the province to ensure municipal responsiveness to high performance and accountability standards. These initiatives are intended to help municipalities improve service delivery. Chapter 1 discussed two initiatives: section 300 of the Municipal Act, 2001 and this guide itself. This appendix examines the following:

- Municipal Performance Measurement Program
- Ontario Municipal CAO's Benchmarking Initiative
- Ontario Centre for Municipal Best Practices
- Public-Private Partnership Workshops
- Innovative Service Delivery Links.

Municipal Performance Measurement Program

The Municipal Performance Measurement Program (MPMP), established in 2000 by the Ministry of Municipal Affairs and Housing, requires Ontario municipalities to measure and report to citizens on their service delivery performance. MPMP consists of 40 performance measures in 10 core service areas. The program involves a dynamic process of defining and refining measures that are relevant to municipalities and the public. The program continues to benefit from the improvements and refinements that municipalities and others suggest.

MPMP includes both efficiency and effectiveness measures. The services selected for the program:

- reflect major expenditure areas for municipalities;
- reflect areas of provincial-municipal interest;
- reflect high interest and value to the public;
- have data that are relatively easy to collect;
- fall under municipal responsibility.

MPMP parallels a number of existing municipal practices of developing and reporting performance measures as part of or in conjunction with municipalities' annual budgets or strategic plans. As well, an intermunicipal benchmarking group has been providing valuable contributions in this area for some time.

For more information on the MPMP program, see the website for the Ministry of Municipal Affairs and Housing at www.mah.gov.on.ca.

Ontario Municipal CAO's Benchmarking Initiative

The Ontario Municipal CAO's Benchmarking Initiative (OMBI) is a partnership project to promote excellent service in municipal government. Approximately 20 larger Ontario regional and single tier municipalities participate.

The OMBI's aim, broadly, is to continue the evolution of a standard performance measurement framework for Ontario municipalities by reviewing and analyzing performance data (including, but not limited to, MPMP results, OMBI data, and other benchmarks as appropriate) to identify best practices of service efficiency and quality in Ontario municipalities. OMBI gathers data on more than 200 performance measures.

The OMBI initiative created several Expert Panels to study roads, water and wastewater, emergency medical services, solid waste management, fire and long-term care. The Expert Panels are intended to:

- improve performance for a range of services;
- identify best practices in the participating municipalities and develop a generic implementation strategy for municipalities that choose to implement those best practices;
- continue efficiency enhancements within and across participating municipalities;
- explore opportunities to jointly develop information technology systems to capture performance measurement data;
- develop standardized financial policies and activity-based cost-accounting protocols to be used in benchmarking;
- refine benchmarking methodology, processes and templates so that they can be utilized in future benchmarking work and shared with other municipalities in Ontario;
- improve information for decision making within municipalities.

For more information, visit OMBI's website: www.ombi.ca.

Ontario Centre For Municipal Best Practices

With the creation of the MPMP, municipalities have the start of a common method for producing performance information about their services. The Ontario Centre for Municipal Best Practices (OCMBP) was established to support the growth of this framework, as well as to establish appropriate comparisons of municipal service performance and identify the best practices that lead to superior results.

OCMBP is a collaborative effort between the Ministry of Municipal Affairs and Housing, the Association of Municipalities of Ontario, and other key stakeholders from the municipal sector in Ontario. Its goals are to:

- use data (from MPMP and OMBI sources) to identify, analyse and publish municipal best practices;
- investigate underlying factors that drive municipal service delivery;
- develop reports, case studies and technical analysis of best practices;
- incorporate performance information into municipal decision-making;
- recommend data maintenance standards and provide feedback to the province on MPMP;
- help municipalities apply best practices.

OCMBP relies on data from some (not all) service areas measured by the MPMP, contacting those municipalities that have achieved high performance so that other municipalities can learn from their best practice models. In determining which services to focus on, OCMBP uses data only from those services for which both effectiveness and efficiency measures are used.

To date, OCMBP has published best practice reports for the following services:

- roads - winter control;
- transit;
- water and sewer;
- solid waste diversion.

For more information, visit OCMPB's website: www.ocmbp.ca.

Public-Private Partnership Workshops

From September to December 2001, the Ministry, in conjunction with the Ontario SuperBuild Corporation and with support from key stakeholder groups, sponsored five Public-Private Partnership (P3) workshops.

These workshops, held in Thunder Bay, Sudbury, Hamilton, Toronto, and Guelph, and attended largely by members of the municipal sector (with some private-sector representation), were undertaken as an educational tool for municipalities in response to increasing interest and use of P3s in the municipal sector.

The workshops provided a detailed review of a 14-stage process for municipalities to consider in adopting a P3 service delivery method, from pre-procurement considerations through to the contract award phase.

Participants received a binder containing this information. This binder is available on request from the Ministry's Municipal Programs and Education Branch.

Innovative Service Delivery Links

In an early effort to support municipalities in their quest for improved service delivery, in 2000 the Ministry created the Innovative Service Delivery Links (ISD) page. This web page links users to websites operated by other governments and professional organizations that feature innovative approaches, theories and practices in municipal service delivery. The web page allows municipalities and local boards to obtain information on a range of new approaches to local service delivery.

The ISD page offers links to information sources in three areas:

- local, provincial and federal organizations that compile information on innovative practices or conduct research and publish documents on the subject;
- international organizations that compile information on innovative practices or conduct research and publish documents on the subject;
- awards for innovation in service delivery and public management.

The ISD page is linked to the OMBI and OCMBP websites and many other useful information sources that may assist your service improvement efforts. You can find the ISD page at the Ministry of Municipal Affairs and Housing website: www.mah.gov.on.ca.

Appendix 4:
The Public Interest "Test"

Service delivery review is a resource-intensive exercise, and before undertaking it, some municipalities conduct a "public interest test" to find out if they are "in the right business" in maintaining formal involvement delivering a specific service or a range of services. For example, while at one time the municipality may have been compelled to provide a service because of a lack of other providers, the need for continued involvement may now be less clear because of the growth of a healthy supply market. The City of Kingston has put a good deal of emphasis on the public interest "test". See: City of Kingston. (2004) Report to Council: Review of Services. Report No. 04-122.

What is the public interest "test"?

While there is no formal or comprehensive definition of the public interest test, it is designed to identify a range of considerations that council might consider in answering the question, "Should the municipality continue to provide this service or program, and if so, what need does it fulfil?" Council may use the answer to this question as part of its policy setting or decision-making process.

Answering this question starts with council's responsibility to respond to the expressed desires and preferences of citizens. However, it also means that council should act in the best interests of citizens. With this principle in mind, council may want to consider broad questions like the following in deciding whether the service or program still, in council's opinion, meets the public interest:

1. Is the service or program important to meeting citizens' needs?

To address this question, identify the stakeholders of the service or program and determine the extent to which they benefit from it. The best way to do this is to get feedback directly from them. Chapter 2 discusses the importance of citizen feedback in the review process and identifies ways to go about obtaining that feedback. The concern is not so much with citizens' satisfaction with a service or program but rather how *important* the service or program is to them.

In determining whether a particular service or program is important to citizens, focus on understanding their needs as opposed to their wants. As distinguishing between needs and wants can be tricky, the following table provides interesting illustrations of each:

Wants (assets)	Needs (services)	Underlying need
Public swimming pools	Recreation services	Healthy lifestyle
Roads	Transportation	Ability to move goods and services Access to services
Water treatment facilities	Water	Thirst Sanitary bathing
Landfill operations	Processing solid waste Eliminate/remove harmful waste	Environment and public health protected

Targeting citizens' underlying needs may allow you to consider a broader range of approaches than focusing on their wants alone. It may, in some instances, suggest opportunities to address the need through methods other than service delivery (for example, through regulation).

2. Is the service or program important to meeting the municipality's legal or policy mandate?

This question tries to determine the fit between the service or program and the municipality's strategic vision, policy mandates and legal obligations.

For example, under section 3(1) of the Homes for the Aged and Rest Homes Act, an Ontario municipality may be required to establish and maintain at least one home for the aged. This may prevent a municipality from entirely discontinuing delivery of this type of service.

A strategic planning process or corporate-wide goal-setting process such as a core services review will suggest what is critical to the municipality's policy mandate.

3. What is the service's or program's net cost and benefit to society at large?

The specific questions you may want to consider include:

- Overall, do the benefits of the service or program outweigh the costs?
- Do equity considerations (that is, fairness to residents or businesses) justify the costs if they exceed the benefits?
- If the municipality discontinued all or part of the service or program, would the service or program cease or would somebody else provide it?
- If the service or program ceased, would there be a negative effect on the municipality or an adverse public reaction? Would specific groups be affected directly or indirectly? Would the negative effect on specific groups be justifiable if continuing this activity causes reductions in other services or programs?
- If the service or program ceased, what costs would go away and what costs

would remain? e.g. supervision/management.

4. Is the service or program affordable?

Remember that even if net benefits outweigh costs, a service or program could fail the public interest test if it is not affordable.

Additional Considerations

In spite of the guidance provided by the questions above, the nuances involved in weighing various (and often competing) considerations means that determining whether a service or program should continue to be provided can often be a challenging and delicate process. If you decide that a service or program has failed the public interest test, there is likely no compelling public policy rationale for the municipality's continued formal involvement.

In the context of this guide, we have used the public interest test strictly as a filter to help you determine whether the municipality's continued formal involvement in a service or program is warranted, either as direct deliverer or as a participant in an alternative form of delivery.

However, many services and programs may be outside the municipality's mandate and operational plan but still have sufficient public interest to justify municipal involvement through other methods. Here, council may want to consider the municipality as funder, adviser, facilitator, manager, or regulator.

Next Steps

The public interest "test" should help inform your decision about the appropriate role of the municipality. Your next step will not likely be simply to cease municipal involvement in the service or program in question (whether through discontinuance, privatization or other form of divestment). Instead, your strategy should involve ensuring continuity of delivery through facilitating transition to another provider willing to assume delivery.

Appendix 5: Approaches To Collecting Information From Citizens

Complaints

Monitoring the frequency and content of citizen complaints is perhaps the most basic and widespread way of obtaining citizen input. One advantage of this passive approach to information-gathering is that transaction costs are low since citizens (not the municipality) initiate contact. However, for the following reasons, you will probably not want to rely solely on complaints to uncover citizen needs.

- Complaints do not respond to specific questions that you design, so it is often hard to interpret the information received. (To mitigate this problem, when citizens complain by phone, you might consider asking them a generic set of survey questions.)
- Not having the benefit of standardized questions, it is often difficult to draw comparisons between complainant responses.
- Since complaints are often submitted on a random basis, it may often be difficult to obtain a sufficient sample size of complaints from which to draw statistically reliable conclusions about the relevance of a particular type of complaint (it is hard to gauge how many other citizens hold the same or other views).
- Complaints measure complaints only, not levels of satisfaction.
- Since most people don't go through the time-consuming process of complaining unless they cross a certain threshold of dissatisfaction, its possible that a significant body of citizens may be somewhat dissatisfied with an aspect of a service or program but not dissatisfied enough to complain. In this circumstance, since no one has complained, you may be falsely led to believe that satisfaction levels are high.

Client Surveys

Client surveys measure the satisfaction of citizens who are the direct recipients or users of a service or program. This type of survey focuses on service or program delivery at an operational level and includes questions about specific details relating to a citizen's actual service delivery experience (for example, how much time it took to get service, whether staff were courteous and helpful, how easy it was to access the facility).

Citizen Surveys

Citizen surveys have a broader scope and are designed to measure the satisfaction of citizens from a general perspective; for example, whether a particular service should be provided directly by the municipality or by an alternative form of delivery. The Common Measurement Tool (CMT) is an example of a citizen survey. The CMT was developed by the Canadian Centre for Management Development, has been widely tested over a number of years and has won Canadian and international awards as an evaluation tool. For more information on CMT, visit the Institute for Citizen-Centred Service website: www.iccs-isac.org.

Survey Tools

A number of measurement tools are available for gathering the views of citizens. These include:

Interviews
- In-depth interviews
- Client focus groups
- Exit interviews

Questionnaires
- Mail surveys
- Telephone surveys
- Exit surveys
- E-mail surveys

Ongoing input mechanisms
- Toll-free numbers
- Suggestion boxes
- Response cards

Appendix 6: Challenges In Developing Performance Measures

You should be aware of the following challenges when creating your performance measures, so that you can develop strategies to address them.

(Material here is drawn from: Ministry of Municipal Affairs and Housing. (2003) Municipal Performance Measurement Program Handbook. Toronto; Schacter, Mark. Practitioner's Guide to Measuring the Performance of Public Programs, Institute On Governance, 2002, www.iog.ca, p.p. 21-26; Schacter, Mark. The Challenge of Applying Results-based Thinking to Policy, Institute on Governance, 2002, www.iog.ca, p.p. 11-17; Mayne, John. Office of the Auditor General of Canada. (2001) Addressing Attribution Through Contribution Analysis: Using Performance Measures Sensibly. The Canadian Journal of Program Evaluation. Vol. 16 No. 1, p. 1.)

Multiple Outcomes

The nature of municipal governance means that for any service or program it may be equally important to achieve a variety of (often competing) outcomes. You need to be aware of and account for all critical outcomes in developing a performance measurement framework and to be explicit in your assumptions about the outcomes you are measuring.

Hard-To-Measure Outcomes

Because they focus on the impact that a service or program has on citizens, many of the measures you develop will be qualitative. You may have to develop indirect or proxy measures that substitute for the direct measures you would ideally like to use. For example, to gauge its success, a fire department might track the number of fire-related deaths and injuries or the dollar value of property lost to fire. A hospital might rely on mortality rates and the results of random patient surveys. A school district might collect information on students who have found work after a certain period.

Motivating The Wrong Behaviour

Municipalities often develop performance measurement frameworks that short-circuit staff's ability to achieve the preferred outcomes. For example, relying on too limited a range of measures may motivate staff to focus exclusively on meeting those criteria to the detriment of the broader outcome of client satisfaction. The broader goal, for most services and programs, is supported by successful execution of a variety of activities such as courtesy, low error rate and so forth.

To manage this risk, remember to develop a range of measures that reinforce the achievement of the preferred outcomes and remember to weigh those measures in proportion to their importance in achieving those outcomes.

Attribution

The ability of any given service or program to achieve the outcomes you have established depends on a variety of factors, only some of which are in the municipality's control. For example, a reduced incidence of domestic assault in a municipality may be associated with that municipality's efforts to improve police services. But there may be other causal factors which the police service does not directly control (for example, a legislative decision imposing stricter judicial penalties on domestic abusers may have accounted for the reduction).

Although factors outside the municipality's control must be monitored and managed to gain an accurate picture of the municipality's success in achieving important outcomes, as much as possible, your measures should be a true reflection of the municipality's performance on managing issues within its control.

Time Lag

Attribution problems can be compounded because of the time lag that generally occurs between municipal intervention in a service or program and the impact that intervention has on achieving preferred outcomes. This lag gives an opportunity for extraneous factors to influence the extent to which your outcomes are achieved.

This time lag challenge may in part be addressed by developing performance measures that capture near-term outcomes and some that address longer-term outcomes.

Cost

The benefit of input and output performance measures is that your information-collection cost is usually low because information on inputs and outputs is usually easily measured and easily accessed by the municipality. It is often more challenging to develop measures for outcomes as gathering information on how a service or program impacts citizens can be a resource-intensive exercise (see Chapter 2 and Appendix 5 for a discussion on some ways to collect citizen feedback).

Trade-offs have to be made to identify a group of measures that are cost-effective and yet meaningfully reflect success in achieving established outcomes.

Appendix 7: Financial And Public Policy Risks In Alternative Service Delivery

The following table uses direct delivery (the traditional form of delivery) as the base case to outline some of the general financial and public policy risks associated with the alternative service delivery methods discussed in this guide.

(Much of the material here is adapted from: Mylvaganam, Chandran (August 2000) Extending the Canadian Treasury Board's "Framework for Alternative Program Delivery Identifying Risk – A First Look," p.5. For additional considerations about risks, see the table at Chapter 6 that outlines when the various ASD methods may not be suitable.)

The complexity of many of these options may increase financial and public policy risks substantially. Therefore, we strongly recommend that you prepare a thorough business case and obtain professional and legal advice before proceeding with implementing any of these alternative service delivery methods.

ASD option	Financial Risk	Public Policy Risk
Direct Delivery	This is the base case for examining the other methods.	This is the base case for examining the other methods.
Purchase of Services	Municipality may have to intervene if the provider is unable or unwilling to deliver, especially if the service or program is critical in nature. Financial risk is therefore increased.	Procurement process should be transparent, fair, avoid conflict of interest (especially important when in-house bids are allowed). Service or program quality must be maintained at a high level.

ASD option	Financial Risk	Public Policy Risk
Purchase of Services (continued)	Municipality may have to maintain some internal capacity.	Employees may be displaced when contract not awarded to in-house bidder or the purchase is an operation and maintenance contract - as opposed to management service contract. Possible disruption of delivery during transition.
Municipal Business Corporations	Generally, financing will rely on the corporations assets and will not be dependent on the municipal tax base. Financial risks are different than those for a municipality because of the use of a corporate structure. Rigorous business case requirements may address risk due to thorough vetting of MBC proposal pre-implementation.	MBC may be perceived to be entering private commercial sphere in spite of mandatory public notice and business case requirements.
Municipal Service Boards and other local entities	If day-to-day operations are too far removed from the checks and balances of direct municipal oversight, financial misadministration could go undetected for an unacceptable period of time.	Generally similar to base case. However, if day-to-day decision making is independent from the municipality (for example, as with arm's-length bodies), decisions may lack sensitivity to local priorities.
Public-Private Partnership (P3)	The private-sector partner could dissolve the partnership (and risk disruption of service or reduced quality of service). This risk of breach of contract is mitigated when the private-sector partner has an equity stake in the project and when contractual provisions require a party to give notice before dissolving the partnership.	Multiple reporting responsibilities may mean that an action that is harmless for one partner may create challenges for the other.

ASD option	Financial Risk	Public Policy Risk
Licensing of Municipal Property	Financial risk may be small.	Licensing processes should be seen as open, unbiased and fair.
Privatize	If municipal involvement and responsibility for the service ceases, financial risk may be small. However, the level of risk also depends on the degree of stakeholder acceptance of the enterprise (the municipality may have to reassume delivery if enterprise fails).	Greater focus on profitability may reduce quality level and alienate users. Labour issues may arise if employees are displaced. Higher fees or costs may alienate users.

Appendix 8: Special Considerations In The Case Of In-House Bids

There are some special considerations to take into account in the case of in-house bids. Council will want to ensure that clear policies are in place about what municipal support, if any, will be provided to in-house bidders and that the municipality has a contingency plan in case the in-house bid is unsuccessful. Section 271 of the Municipal Act, 2001 also requires municipalities to have policies about the circumstances in which "in-house" bids will be encouraged as part of the tendering process.

Both the City of Ottawa and the Region of Peel have developed helpful manuals on this topic (see *Appendix 10*). These provide more detail on what is involved in this service delivery method. For additional information, see the:

- discussion about "competitive service delivery" in Indianapolis and the Region of Peel documented in the Canadian Urban Institute's 2003 study: Best Practices in Municipal Service Delivery. Toronto.
- Carr-Gordon Limited's 1997 "New Directions in Municipal Services: Competitive Contracting and Alternative Service Delivery in North American Municipalities" (ICURR Publications) for information on the application of this process in Indianapolis, Charlotte (NC), Phoenix, and the then Borough of East York and the City of Etobicoke.
- discussion of the key issues in the effective design of these processes in: Eggers, W.D. (1998) Competitive Neutrality: Ensuring a Level Playing Field in Managed Competitions. Los Angeles, CA: Reason Public Policy Institute.
- awards/reviews about the City of Phoenix and New Zealand - each examples of jurisdictions that have implemented this process on a wide scale. For information on the results in Phoenix, see Bertelsmann Foundation. (1993) Carl Bertelsmann Prize 1993: Democracy and Efficiency in Local Government (Vol. 1). Gutersloh: Bertelsmann Foundation Publishers. See also Pricewaterhouse Coopers Endowment for the Business of Government. (2001) Creating a culture of innovation: 10 lessons from America's Best Run City. Available online at http://www.endowment.pwcglobal.com/pdfs/denhardtreport.pdf. For information on the results in New Zealand, see Kettl, F. Donald. (2000) The Global Public Management Revolution: A Report on the Transformation of Governance Washington, DC: Brooking Institution Press.)

Decisions on which service provider to use need to be made on the principle of objectivity and the protection of citizens' interests. The following principles may assist:

- promoting open and competitive tendering and publication of the process;
- ensuring transparent decision-making;
- providing all bidders with the same information;
- ensuring that all information is accounted for in the bidding process;
- ensuring that specifications are generic and not biased in favour of a particular bidder;
- maintaining record systems that will pass scrutiny;
- developing rules that address cross-subsidization from other municipal services and programs.

(See: Alternative Service Delivery in the Ontario Public Sector. Ontario Public Service Excellence & Innovation Office. Centre for Leadership. Cabinet Office. 1999. p. 11.)

Municipal Support Of The In-House Bid

Some municipalities have funding programs to support in-house bids. This delivery option is becoming more popular and various collective agreements allow for employee tenders on services being opened up to private-sector competition. However, these provisions may lead to the perception of prejudice against private-sectors bidders and have a chilling effect on bidding by outside providers.

Because neutrality is important, for employee bids, you might consider setting up protocols to address perceptions of unfair advantage by employees.

Consider advising the vendor community both of employee access to the bidding process and of procedures addressing potential unfair competitive advantage or conflict of interest.

In addition, clearly define the requirements of an employee proposal and proactively address questions that might arise. For example, if other potential suppliers must take operating and capital risks, how can employee bidders assume those same risks? If the project requires capital funds, how can the employees get access to such funds?

The In-House Bid Team's Relationship To The Bid

In-house bids raise a number of issues related to possible conflicts of interest and may merit particular attention in designing the process. Some of the potential issues include:

- degree of separation of in-house bidders from the bid process;
- costing;
- bid analysis;
- award of contract;
- post-implementation audits;
- waiver of some conflict of interest disqualification.

Appendix 9: Helpful Hints For Procurement Of Services

For additional assistance, see A Guide to Developing Procurement By-laws, which lists 50 different risks that can arise in procurement and how to address them.

The municipal solicitor should be consulted in developing any of the policies discussed in this appendix. These examples are not meant to be exhaustive. Many other issues may arise in a particular context. It is a local responsibility to decide what is appropriate in a given situation.

Part A: Defining The Scope Of Work

- To maximize the number of potential providers, create a procurement policy that uses generic specifications in defining work or business needs.
- To protect the objectivity of the procurement function, ensure clear procurement policies are in place specifying the circumstances under which unsolicited proposals will result in a procurement.
- Use a multi-step procedure including a pre-qualification stage to ensure that the scope of work is not so broad (e.g., too complex or lengthy) that contracts become difficult to develop and implement.
- When demand is high, preferred prospective suppliers may confine their bidding to the more profitable or larger municipal contracts and bypass those that are less consequential to their "bottom line."
- Be aware of the impact of timing (for example, construction season) on your procurement efforts.
- In the bidding process, provide enough time for bidders to prepare a well-researched response. Be conscious of possible logjams in turnaround time, including mailing time (both of the tender documents and of the bidder responses) and set realistic deadlines. After awarding the contract, ensure that your expectations for the timing of delivery are based on realistic timeframes. As prospective providers may not always have excess capacity (in terms of staff or equipment), allow sufficient time between award and contract start dates to plan effectively.

Part B: Preparing And Circulating The Bid Document

- To promote transparency and openness in your procurement process, consider putting in place general procurement policies about how potential suppliers will be informed of policies and procedures, bid opportunities and how to participate in the process. Note that there are special provisions about notices involving procurements in the MASH Annex to the Agreement on Internal Trade and the Agreement on the Opening of Public Procurement for Ontario and Quebec. For information on these agreement go to: www.ppitpb.gov.on.ca

- To accurately value bids where goods and services are to be received at a later date, ensure that procurement policies specify how net present value will be calculated.
- Develop common criteria for evaluation of bids (price, quality, risk, qualifications and experience, strategy, approach, methodology, scheduling, past performance, facilities and equipment).
- If there is a reasonable likelihood that on completion of a contract, a follow-up contract will be necessary, ensure that the original bid solicitation makes clear that a follow-up contract may be necessary.
- Adopt clear policies about how bids are to be kept secure, how proprietary information is to be handled and how the confidentiality of bids will be maintained, keeping in mind any relevant privacy or Freedom of Information legislation.
- A policy for the required format for bids can address the risk of fairness concerns in the way the bids are evaluated.

Part C: Evaluating Bids

- A policy of documenting the process for evaluating bids may give the municipality clarity about the bid evaluation process.
- To promote evaluation of comparable bids, specify:
  - how bids are to be presented in terms of costs (for example, inclusion of total costs, including taxes);
  - standards that have been certified, evaluated, qualified, registered or verified by independent nationally recognized and industry-sponsored organizations such as the Standards Council of Canada;
  - evaluation methods for dissimilar products (that is, a weighting system).
- To reduce the risk of perception of bias or undue influence, establish a policy of "no informal contact" between municipal/local board staff or elected officials involved in the procurement with potential providers during the evaluation period. (A broader policy on contact at other stages of the procurement process, specifying who, when and how the contact may be made, can address risks at other stages of the process.)
- To ensure that a variety of perspectives influence the selection decision, use a selection committee of individuals from more than one department for mid-level contracts and from more than one department and council in the case of higher-value contracts.

- Establish policies that address how the municipality will respond to bids that exceed budget, or to bids that do not respond to the business needs or do not represent fair market value.
- A policy of keeping final rating results and supporting documentation available for internal inspection can show how a decision was arrived at for senior management, council or an auditor.
- Establish a policy concerning what bid information can or should be made public and when.
- Establish a policy on how to respond to irregular bids and how to debrief unsuccessful bidders and respond to their questions.

Part D: Contract And Risk Management Issues

- Having the municipal solicitor involved early in the bid process and reviewing contracts can reduce the risk of unintended legal consequences or imprecise contract language.
- Require suppliers to provide evidence of satisfactory insurance coverage to indemnify the municipality or local board from any damage claims arising from the contract.
- Require suppliers to provide a Certificate of Clearance to mitigate the risk of providers having arrears of premiums owed to or levied by the Workplace Safety and Insurance Board. As well, proof of compliance with health and safety legislation is important.
- Establish policies for how contracts may be terminated and how disputes may be resolved.

Appendix 10: Additional Resources

Resources Relevant To Most Or All Topics In The Service Delivery Review Guide:

Armstrong, C. (1992) Thoughts on Canadian Municipal Management: St. Catharines, Hamilton-Wentworth and Edmonton. London: University of Western Ontario.

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Notes

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Guide d'examen de la prestation des services destiné aux gestionnaires municipaux

Paid for by the Government of Ontario

Ontario

Building Strong Communities

Making Choices:
A Guide to Service Delivery Review for Municipal Councillors and Senior Staff

August 2004

Ontario

The Ministry of Municipal Affairs and Housing and its partners on this project offer **Making Choices: A Guide to Service Delivery Review for Municipal Councillors and Senior Staff** as a helpful resource to municipalities. However, the guide summarizes complex matters and reflects legislation and practices that are subject to change. Some details may have been omitted in the interest of brevity. Municipalities are responsible for compliance with provincial policy decisions or statutes. The guide should not be used to substitute for legal or professional advice, and we recommend that municipalities seek such advice in planning any actual service delivery changes. The user is responsible for how the guide is used or applied.

Although this document has been carefully prepared, neither the ministry nor its partners accept any legal responsibility for its contents or any consequences, including direct or indirect liability, arising from its use.

Ontario

AMCTO
Association of
Municipal Managers,
Clerks and Treasurers
of Ontario

MFOA
MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO

Ontario
Municipal
Administrators'
Association

Making Choices: A Guide To Service Delivery Review For Municipal Councillors And Senior Staff

"The federal deficit, the 1993 recession, the downloading, the who does what…have created active, engaged citizens who demand not just that their money is managed wisely but that the choices governments and its public servants make are based on best case information and evaluation…"

That was the conclusion of a recent national citizen survey.[1] It's clear what citizens expect. **Making Choices: A Guide to Service Delivery Review for Municipal Councillors and Senior Staff** responds to that expectation. It was created to help municipal councils and senior staff:

- improve services;
- meet new or increased demand from customers for services;
- maintain existing service levels in the face of competing priorities or decreasing revenues;
- reduce costs; and
- improve revenues.

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[1] From an Ipsos-Reid survey presented at the Ontario Ministry of Finance's 3rd Annual Modern Controllership Forum, January 21, 2004.

The guide offers a fresh approach to managing municipal spending. Traditional budgeting involved managing spending through across-the-board cuts to all services, "cherrypicking" particular services to cut, deferring capital projects, increasing user fees or dipping into reserves. Moreover, it was generally assumed that a reduction in the budget of a service would result in a comparable reduction in services or service levels.

The service delivery review process takes a different tack. It focuses on setting priorities and, where possible, reducing the cost of delivery while *maintaining* or *improving* services and service levels. It's all about making informed, strategic choices.

The guide shows how to make choices that are affordable, that reflect municipal values, that draw on best practices in service delivery and that are based on best-case information and evaluation. It includes processes tested by jurisdictions around the world and draws from the experiences of Ontario's innovative municipal sector.

The guide was developed by the Ministry of Municipal Affairs and Housing in partnership with the Association of Municipal Managers, Clerks and Treasurers of Ontario, the Municipal Finance Officers' Association of Ontario and the Ontario Municipal Administrators' Association.

A detailed version of the guide has been developed for senior managers of municipal departments. It is available at www.mah.gov.on.ca.

What Is Service Delivery Review?

Service delivery review is an evaluation process in which a specific municipal service is systematically reviewed to determine the most appropriate way to provide it.

What Does Service Delivery Review Involve?

Service delivery review involves asking ten questions about service improvements and expenditure management:

1. Do we really need to continue to be in this business/service?
2. What do citizens expect of the service and what outcomes does council want for the service?
3. How does current performance compare to expected performance?
4. Do the activities logically lead to the expected outcomes?
5. How is demand for the service being managed?
6. What are the full costs and benefits of the service?
7. How can benefits and outputs of the service be increased?
8. How can the number and cost of inputs be decreased?
9. What are the alternative ways of delivering the service?
10. How can a service change best be managed, implemented and communicated?

Answering these questions means engaging citizens and other stakeholders, including municipal staff, to ensure that the choices made are informed by the goals and values that are important to them.

What Is Council's Role In Service Delivery Reviews?

Many of the broad areas of responsibility described in Section 224 of the Municipal Act, 2001 indicate council's roles in service delivery review:

(a) to represent the public and to consider the well-being and interests of the municipality;
(b) to develop and evaluate the policies and programs of the municipality;
(c) to determine which services the municipality provides;
(d) to ensure that administrative practices and procedures are in place to implement the decisions of council;
(e) to maintain the financial integrity of the municipality; and
(f) to carry out the duties of council under this or any other act.

Throughout the review process, council is called upon to make choices – what to deliver, what outcomes the municipality expects from its services, who should pay for them, whether and what citizens should pay for certain services, whether a service could be provided at a lower cost, whether all the things that go into delivering a service are really necessary, and who should deliver which services. Even the decision *not* to review a service is a choice.

What Is The Scope Of Service Delivery Review?

Meaningful service delivery review incorporates skills, knowledge and experience from many professional disciplines, including service management, labour relations, financial analysis, operational analysis and cost accounting.

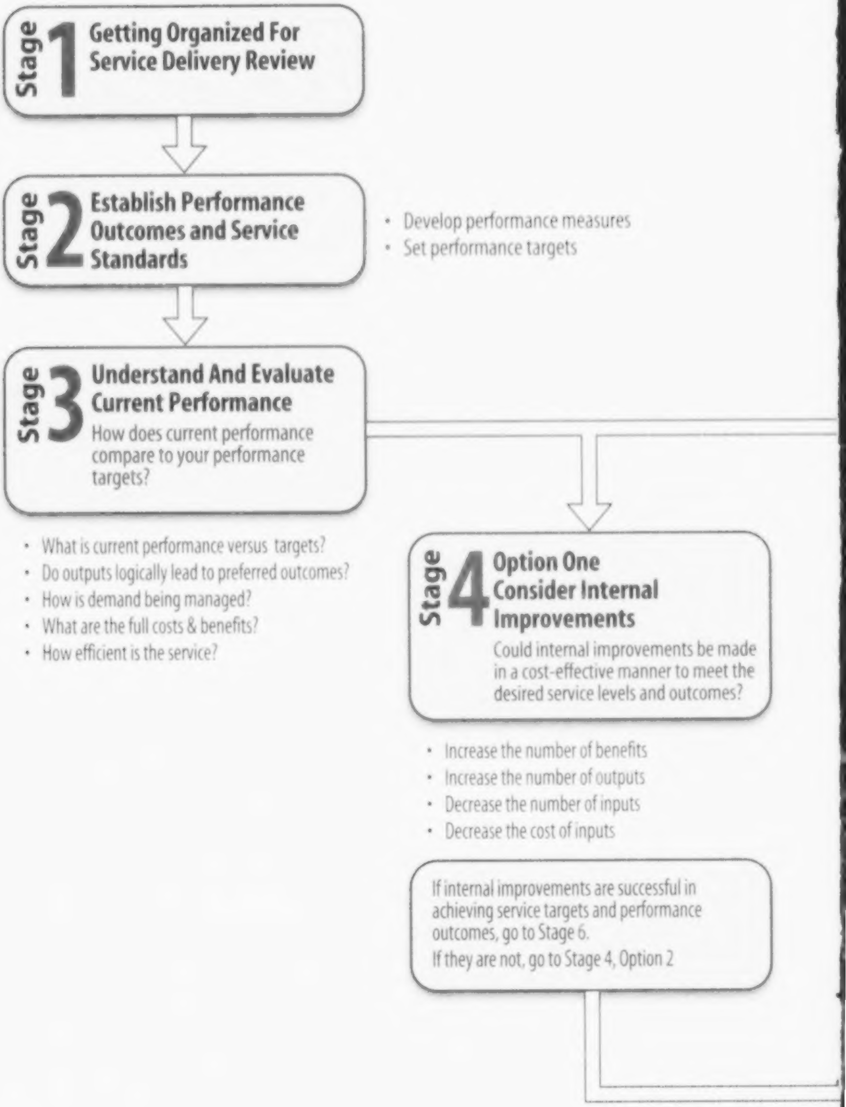
Effective reviews are also informed by a thorough understanding of the service area under review. Technical knowledge will be called on to decide matters such as where to put a fire station or when best to clear snow.

What Makes Service Delivery Reviews Effective?

Service delivery reviews are time- and resource-intensive exercises and may involve sensitive local issues. Before beginning a review, council must be committed to seeing it through, give staff clear direction and wholeheartedly support the process.

Many municipalities have found it important to have clear strategic priorities in place before undertaking reviews so that the choices called for by service reviews can be more easily made.

We suggest a six-stage approach to service delivery review, depicted in the flow chart on the following page. This approach is based on experiences gained from Ontario municipalities that have undertaken reviews and on knowledge of practices elsewhere.



Stage 1 Getting Organized For Service Delivery Review

Stage 2 Establish Performance Outcomes and Service Standards

- Develop performance measures
- Set performance targets

Stage 3 Understand And Evaluate Current Performance

How does current performance compare to your performance targets?

- What is current performance versus targets?
- Do outputs logically lead to preferred outcomes?
- How is demand being managed?
- What are the full costs & benefits?
- How efficient is the service?

Stage 4 Option One Consider Internal Improvements

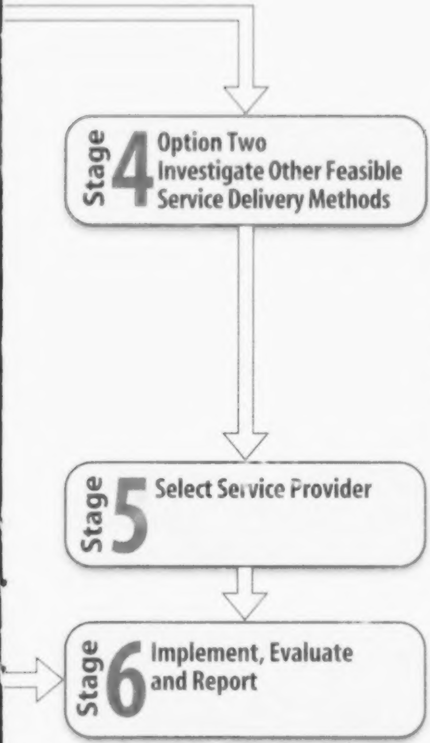
Could internal improvements be made in a cost-effective manner to meet the desired service levels and outcomes?

- Increase the number of benefits
- Increase the number of outputs
- Decrease the number of inputs
- Decrease the cost of inputs

If internal improvements are successful in achieving service targets and performance outcomes, go to Stage 6.

If they are not, go to Stage 4, Option 2

Flow Chart For Service Delivery Review



Stage 4 Option Two Investigate Other Feasible Service Delivery Methods

Identify range of delivery methods
- Direct delivery
- Purchase of services (including in-house bids)
- Municipal business corporations
- Municipal service boards and other local entities
- Partnerships
- Licensing
- Privatization

Identify barriers to changing methods

Assess suitability of feasible methods

Use the four analytical tools from Stage 3 to analyze the suitable methods

Stage 5 Select Service Provider

Define scope of work

Prepare and circulate bid document

Evaluate bids

Prepare and negotiate the contract

Stage 6 Implement, Evaluate and Report

Execute implementation plan for delivery of the service
- Implement
- Evaluate
- Report on any improvements and barriers to improvements as per section 300 of Municipal Act, 2001

In the six-stage process, the council will have the primary role in the first two stages, will be asked to make a decision about whether to focus on internal improvements or look at other delivery methods (Stage 4), should be prepared to select a provider (Stage 5), put the supports in place for a successful implementation of the improvement and communicate the results to citizens (Stage 6).

Each municipality is different and has different needs, challenges, resources and objectives. This service delivery review approach offers a flexible framework that can be used in a variety of ways, for example, as a part of a wider corporate initiative or as a stand-alone initiative.

Although the six stages form an integrated process, the tools, techniques and ideas in the guide can be used immediately to improve delivery of certain services. For example, a quick scan of the flow chart might suggest that a certain service would be delivered more efficiently by better managing demand, and this course of action could be followed up straight away.

Step One: Getting Organized

To get started, council needs to make choices about:

- What ground rules, principles and processes will govern the review?
- What staffing and support are needed to undertake the review?
- How you will ensure your review process is informed by citizen demands, expectations and concerns?

Of course, council also needs to decide what to review, taking into account common, strategic and community considerations of where improvements are needed most urgently.

Step Two: What Do You Want The Service Or Program To Do?

Once a service has been identified as a candidate for review, the following questions need to be asked:

- What is its purpose?
- Who is its target group?
- Why is it needed?
- What outcomes does it or should it have? That is, how does it affect citizens?
- What measures can be used to gauge the effectiveness of the service?
- What are appropriate service standards and targets?

The answers to these questions become the goals that the service or program will aim to achieve. The preferences of citizens about service levels and standards need to be weighed against fiscal prudence and affordability.

It's not enough to focus merely on inputs (such as the operating cost of the garbage trucks used) or outputs (such as the tonnes of garbage collected). The review should focus on *outcomes* (such as the increase in the percentage of residential solid waste diverted from landfills and/or incinerators). Outcomes are the wider benefits that matter most to citizens and they are the best gauge of a service's success.

Step Three: How Is The Service Currently Performing?

There are four broad questions to consider:

1. What **assumptions** underpin current service arrangements? Do the outputs of the service or program logically lead to the desired outcomes?
2. How is **demand** for the service or program managed? Education? Pricing? Management procedures? Technological innovation? Regulation or operational change?
3. What are the **full costs and benefits** of the service or program? This includes:
   - Direct costs (e.g., labour, fire trucks, day care facility)
   - Indirect costs (e.g., administrative, payroll and legal costs)
   - Tangible costs (e.g., capital costs, operating costs)
   - Intangible costs (e.g., impact on municipality's reputation)
   - Tangible benefits (e.g., low application processing times)
   - Intangible benefits (e.g., high staff morale)
4. How **efficient** is the service or program? Here you'll want to consider all the inputs (such as money spent or staff employed) and outputs (such as number of tonnes of garbage collected or the number of fires extinguished).

This information may identify a performance "gap" in the current delivery method relative to the desired outcomes.

At this point, the municipality has an important choice to make: continue to provide the service directly but in an improved way, or investigate alternative methods of delivery.

Step Four, Option One: Improve Delivery Through Internal Improvements

Many municipalities that currently deliver a service or program directly choose to make internal improvement first before considering alternative delivery methods.

Staff can improve delivery by:

- **Increasing the number of benefits**, for example, by using technology to make services more responsive, reliable or accessible.
- **Increasing the number of outputs**, for example, by making better use of existing assets and facilities.
- **Decreasing the number of inputs**, for example, by eliminating red tape or duplication; re-deploying inputs that don't add significant value; or sharing services to achieve economies of scale.
- **Decreasing the cost of inputs**, for example, by error proofing; standardizing; simplifying; competitively sourcing; volume leveraging; establishing a "just-in-time" supply or a supply chain management system; or better managing labour costs.

If the internal improvement strategy is successful, the next step is to implement, evaluate and report the improvement. If it proves unsuccessful, the next step is to investigate other feasible service delivery methods.

Step Four, Option Two: Investigate Alternative Service Delivery

A number of options are available:

- Direct Delivery
- Purchase of Services[2]
- Municipal Business Corporations
- Municipal Service Boards and other Local Entities
- Partnerships
- Licensing
- Privatization

The review team will start by screening out methods that are unfeasible due to legal barriers (the municipality is legally obligated to provide the service or program in a certain way) or market barriers (the private provider market cannot fill the gap).

This process should leave the municipality with a short list of feasible delivery methods for more in-depth assessment. The review team will analyze suitable methods using the four analytical tools identified in Step Three.

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[2] This could include the external purchase of services (hiring another service provider either to deliver the service with private-sector employers or to manage the service using municipal employees) or internal purchase of services ("contracting in" or "in-house bidding" where internal staff compete with external parties to provide the service).

Step Five: Select A Service Provider

Having selected an alternative delivery method, the municipality then needs to select a service provider. This means making choices about appropriate evaluation criteria for bids. This process also involves:

- defining the scope of the work;
- preparing and circulating the solicitation document;
- evaluating bids or proposals; and
- preparing and negotiating the contract.

Step Six: Implement, Evaluate And Report

Whether the municipality decides to make improvements to the current method or use an alternative delivery method, the final step is to implement the changes, evaluate results and report to citizens both on the successful improvement and on barriers to successful improvement, as required by Section 300 of the Municipal Act, 2001.

The following diagram on influencing change shows the key ingredients necessary for a successful implementation effort (and the consequences of leaving out any one of the ingredients!).[3]

As changes are implemented, the municipality may need to adjust the choices made, such as deciding on appropriate remedial steps if the changes made to delivery fail to achieve the established goals.

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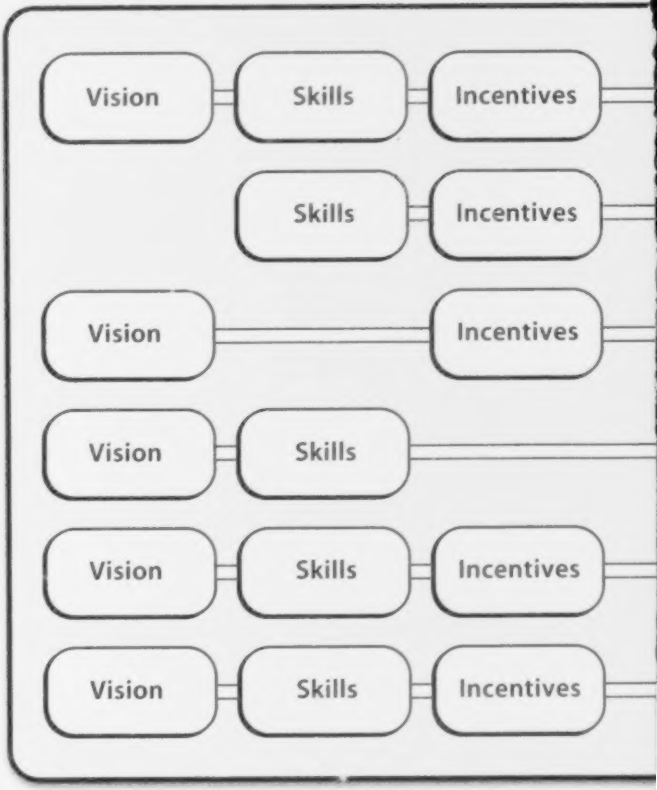
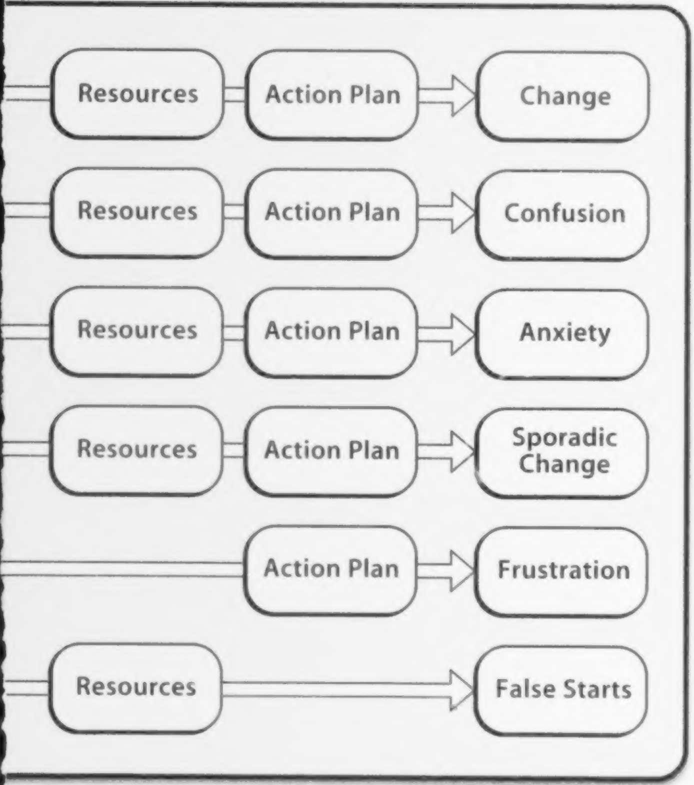
[3] From the workshop "Developing a Coaching and Mentoring System by Linkage Corporation." Available electronically at www.linkageinc.com.

Influencing Change

(When Implementation Goes Astray)




Resources
Action Plan
Change
Resources
Action Plan
Confusion
Resources
Action Plan
Anxiety
Resources
Action Plan
Sporadic Change
Action Plan
Frustration
Resources
False Starts

Using Service Delivery Reviews To Improve Services And Better Manage Spending

This guide has been developed to provide municipalities with a tool that considers best practices for making informed, strategic choices about how services are delivered. The six-stage process outlined on the preceding pages reflects municipal experiences with service delivery improvements around the world and builds upon the work of Ontario's innovative municipal sector. This process has been designed to be comprehensive, relevant and flexible to meet the diverse needs and goals of municipalities across Ontario.

Where Can I Get More Information?

The complete guide is available at www.mah.gov.on.ca.

For more information about this guide and its contents, please contact the nearest Municipal Services Office or the ministry's Municipal Performance and Accountability Branch at (416) 585-6022.

Municipal Services Offices

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